التعاون الألماني
DEUTSCHE ZUSAMMENARBEIT

Implemented by:

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ACCESSING FINANCE IN JORDAN

A GUIDE FOR ENTREPRENEURS

APRIL 2024

INTRODUCTION

Using the Guide

Welcome to our comprehensive guide designed specifically for startups at various stages of their journey. This guide is crafted with the purpose of clarifying the complex landscape of startup financing, providing you with the knowledge, tools, and resources necessary to navigate the challenges of raising capital. Whether you're in the early planning phase, seeking growth funding, or preparing for the next funding round, this guide serves as a roadmap to help you make informed decisions and strategically position your startup for success.

Navigating through this guide, you'll find it structured to mirror the lifecycle of the fundraising process, from initial planning to post-financing stages. Each section is tailored to address the unique needs and challenges at different stages of your startup's fundraising process.

The guide is designed to be flexible. The sections are sequential yet can be read independently, allowing you to focus on areas most relevant to your needs. It also encompasses case studies and insights from various market players, including service providers, Investors, accelerators, and support entities, providing a comprehensive view of the entrepreneurial journey from idea validation to scaling.

Embark on this journey with us as we guide you through the complexities of startup financing, empowering you with the knowledge to secure the funding you need and achieve your business goals.

You can access the pdf electronic version and an online web-based version by using the below QR code. The online version will provide you with access to a self-assessment to help you understand your current position and tailor the guide's content to your specific needs. The online web-based guide also includes a comprehensive database for funders in Jordan.

Guide Map

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PREPARING STAGE

Planning for your Business

Your startup will go through various stages in its business cycle, from the birth of your idea to a trajectory of continuous innovation or decline. While stages are similar for most startups, they also depend to a great extent on a country or region's ecosystem, and the various challenges and opportunities it provides.

The figures below provides more information on each stage. It is important to note that every entrepreneur and startup is different, and that the description shown below are not absolute.

Conception/Idea:

Entrepreneurs determine the feasibility of the new business.

Seed:

The business is launched and sales are typically inconsistent at best, seldom meeting the entrepreneur's expectations. Entrepreneurs modify products or services and experiment with different market penetration tactics.

Growth-Early Stage:

Customer responses validate the business concept and marketing efforts, but the business struggles to find its competitive advantage.

Growth / Rapid Growth:

Sales and profits are increasing as a result of new customers and expanding markets. Cash flow is an issue because of the cost of growth. For rapid growth, the business outpaces the industry growth rates and establishes itself as a viable concern. Sales increase rapidly and some entrepreneurs decide to sell their business at this stage.

Stage					
Criteria	**Conception/Idea**	**Seed**	**Early Growth**	**Growth**	**Publicly Traded Company**
Revenue	$0	Inconsistent	Significant revenues, but still struggling to generate profits	Large revenues with profit	Exponential Revenues
Product	Idea only	MVP Still pivoting	Product market fit achieved Last chance to pivot	Fully developed product Company systems are in place	Diversified Products Established Policies, Procedures, and HR Systems
Co-Founding Team	1 to 4 full/part-time	2 to 4 (full-time)			
Executive Team	Founders	Founders + (1-5 employees)	Founders + (5 to 20+ employees)		
Growth	Idea validation	Customer validation Beginning growth	Accelerating growth		Exponential Growth
Board of Directors	None	Cofounders, Investors	Founders, industry experts, Investors		

BUSINESS & FINANCIAL PLANNING (EARLY STAGES)

Funders you approach, ranging from institutional investors and banks to angel investors and 3Fs (Friends, Family, and Fools), will need to see documentation that walks them through your business' added-value, what your product or service does, the state of the market, financial projections, current financial status, team, and other important aspects. This is what is called a business plan.

The business plan holds significant importance, in addition to being a planning tool, it serves as a written record. Both investors and the business owner can consult this document to explore details or concerns that might not have been discussed during meetings or pitches, especially those details that are not readily accessible to the public.

Investors can request a business plan either prior to or following an initial meeting or pitch. The business plan should contain the following sections and answer the following questions:

Problem	What is the problem your service or product is trying to address? What gap in the market exists that you trying to capitalize?
Solution	What is your product or service? How does it currently address, or intend to address, the gap or problem in the market?
Market Size	What does the market look like now? Who are the major players? What share of the market will you capture?
Business Model	How will your service or product generate money? If you're a social enterprise, how will it generate impact alongside financial returns? You should have a tested and monetized model that has evidence of generated sales and profit .
Competition	Who are your competitors in the market and what are their strengths and weaknesses? Do they currently have, or could in the future develop, a service or product that fulfils client needs similar to yours?
Market Plan	What does your plan to go-to-market look like? If your product or service is not yet fully operational, how soon will it be and how soon will you be able to generate returns on investment?
Team	Who is on your startup's team? What significant skills and experience do they bring and that provide a serious advantage to your startup?
Traction	What progress have you made so far and what is your quantifiable impact? You should be able to showcase numbers, including figures on the number of clients, retention, upselling, and cross-selling rates .
Financials	What numbers do you have on your operations, including costs, revenues, net profits, and various other metrics? You should also have projections for your company over the next several years, and information on any funding you have secured.
Fundraising	How much money are you requesting from your investor? In exchange for what? What do you plan to do with it?

While there is no definite step-by-step guide for entrepreneurs to follow in preparing for the fundraising process at early stages, you can benefit from taking note of the following process:

1. **Validate your Idea:** Startups spring from ideas that seem convincing to entrepreneurs. Such ideas or propositions can be based on varying levels of prior experience, knowledge, or understanding. As an entrepreneur you should seek to validate (i.e. verify) your business idea before seriously beginning work on your startup or making any commitments, especially those that are financial. This can be done through simple but thorough market research on the internet as well as receiving input from your network and/or other players in the market. You should seek to conduct interviews and discussions with knowledgeable market players (thought leaders, established businesses, future competitors, etc.) and potential customers, in order to gauge your idea's market potential before you begin working on it.
2. **Evaluate your Chances:** Your idea can eventually become a viable, thriving business. Before it does, however, you need to ensure it has enough potential to generate sufficient revenues and can survive the ups and downs of the market before investing your time and other people's money. Larger and more powerful competitors can deploy a product or service similar to yours more quickly, at a much cheaper rate, and to a greater number of customers. You need to evaluate the chances of this happening and the risks they pose to your idea or business. It is recommended that you analyze your competitors (other businesses and organizations that may provide similar products or services) in the market to better understand what the competition offers and what it doesn't, and how your startup can either fill gaps or deploy better products and services.

3. **Assess the Requirements:** If you determine that there is indeed potential for your product or service in the market, you will need to thoroughly assess the requirements to turn your idea into a business, financial and otherwise. Before investing time, money, and resources, you will need to have rough answers to the following questions:

- ✔ How much financing will I require to turn my idea into a business, including developing a prototype of my product or service? Do I have enough money to bootstrap? If not, from where will I be able to obtain financing?
- ✔ Can I, at least initially, work on my idea part-time, or will I need to quit my job and work full-time?
- ✔ What are my targets, and how soon should I reach them before abandoning the process?
- ✔ Will I need a co-founder or team, or can I run the startup on my own, at least in the beginning?
- ✔ What are the legal issues I need to watch out for, including those related to business registration or licensing?

4. **Operationalize your Idea:** If you determine that you do indeed have the necessary ingredients to take your idea to market, you can begin to turn your idea into reality.
5. **Find a Suitable Accelerator or Incubator:** At this stage, you would benefit from the support and guidance to turn your idea into a real product or service. You should consider whether you would benefit from enrolling in an accelerator or incubator. They can support you in developing your idea into something tangible, provide you with dedicated and relevant expertise, and direct you to financing opportunities, in addition to other types of support. You should do your research on such entities before applying, in order to determine their added value for your specific startup. Incubators and accelerators both support startups, but differ mainly in structure and focus. Incubators nurture early-stage startups, offering long-term support, resources, and mentorship to help develop business ideas gradually. They often don't take equity. Accelerators, on the other hand, run short-term, intensive programs aimed at rapid growth, culminating in a pitch event to investors. They typically provide seed investment in exchange for equity, focusing on startups ready to scale quickly.
6. **Establish a Minimum Viable Product (MVP):** In order to test your idea, you will need to establish a prototype, or Minimum Viable Product (MVP). An MVP is a basic product that allows you to generate initial feedback from customers and assess whether your idea works as you imagine. Creating an MVP should present a minimal expense, and should be quickly adaptable depending on the requirements of the market. In addition to enabling you to understand the needs of your clients, an MVP can help you demonstrate to investors and relevant stakeholders that you have a product that can generate sufficient traction and be the basis for a successful business.
7. **Generate a User Base:** You will need to expand your number of clients in order to begin to generate much needed revenue and further illustrate growth to investors. The greater the number of users your startup has, the greater the revenue and the more valuable the insights they provide on your product. Additional users will be able to inform you on your most vital metrics, including whether or not your customers buy from you again (retention rate), if you sell other products or services to them (cross-selling), and if you persuade your customers to buy something additional or more expensive (up-selling). Other customer feedback, including complaints and recommendations, will also provide you with valuable insight. Such information is vital for investors and funders to help them assess the viability of your business and its anticipated growth trajectory.

8. **Fundraise:** Once you are convinced you have a viable business and it is growing, you will likely need to secure external funding to continue your growth. If at this stage you do not have the sufficient level of capital required (and most entrepreneurs will not), you will need to have a very clear idea of how much you need to fundraise and for what.

PLANNING FOR YOUR BUSINESS: GROWTH PLANNING (GROWTH & LATE STAGES)

After the initial stages, startup planning shifts focus to scaling operations, expanding market presence, and securing sustainable growth, emphasizing business model optimization, market share increase, and financial sustainability. While early-stage startups prioritize validating their idea and market fit, growth-stage startups concentrate on scaling, market expansion, and financial strategies for sustainable growth, necessitating stage-specific planning approaches.

Components:

- **Growth Planning:** Involves strategies for market expansion, product diversification, or geographic spread. It includes detailed market analysis, competitive strategy, and scaling operations. Growth planning also covers talent acquisition strategies to build a team capable of supporting expansion.
- **Financial Planning:** At this stage, financial planning becomes more complex, involving detailed financial modeling, profitability analysis, and funding strategies for expansion. It includes managing cash flow for growth, securing additional rounds of financing (such as Series A, B, C funding), and possibly preparing for an exit.
- **Challenges:** Challenges include managing the complexities of scaling operations, maintaining company culture during rapid growth, and navigating increased competition. Financial risks also become more pronounced as the stakes are higher.

Key Differences:

- **Scope and Scale:** Business and financial planning for early-stage startups is more about proving the business concept and achieving initial market traction. In contrast, growth planning for later stages focuses on scaling the business and maximizing profitability.
- **Resource Allocation:** Early-stage startups often work with limited resources and focus on securing initial funding, while growth-stage startups are more concerned with efficiently allocating larger budgets and investments to fuel expansion.
- **Risk Management:** While all startups must manage risk, growth-stage startups face different financial risks related to larger-scale operations and investments. Their planning processes must therefore include sophisticated risk management strategies.

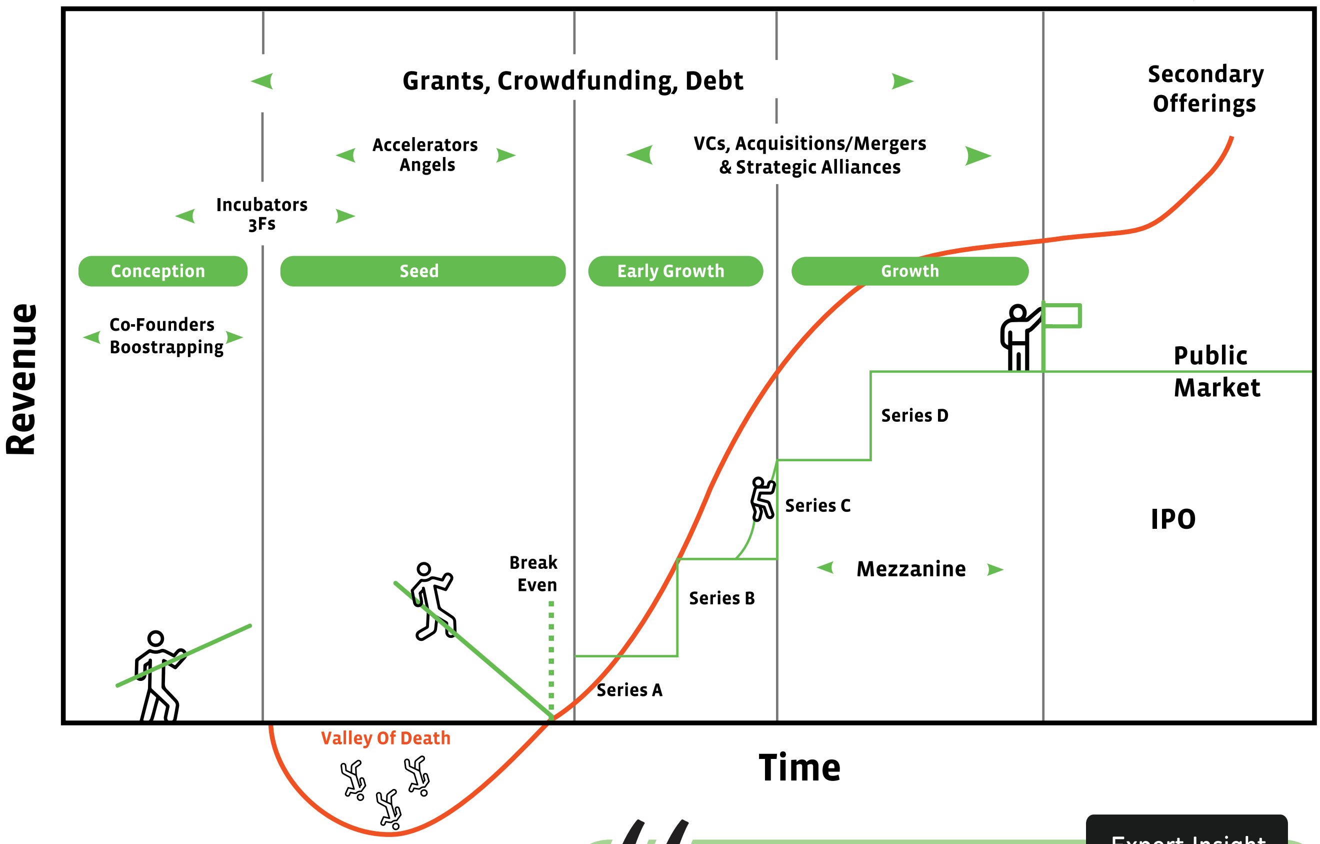
Related Online Resources:

- An extensive selection of business tools and templates by Oasis500: https://oasis500.com/resources; covering all key aspects such as Business Modelling, Customer Development, Validation, Pitching, Financials, Strategies, Valuation & Equity, Fundraising, Terminology and Legal.
- Estimating the market size: https://learn.marsdd.com/article/how-to-estimate-market-size-business-and-marketing-planning-for-startups/; for getting your SAM and TAM estimates
- Assign the technology readiness level: https://ised-isde.canada.ca/site/clean-growth-hub/en/technology-readiness-level-trl-assessment-tool; for TRL self-assessment
- Google's public data depository: https://www.google.com/publicdata/directory ; for building basic country research and/or comparisons
- Export / import data collections: https://www.indexmundi.com/facts/topics/private-sector-and-trade ; for reviewing basic local information or export destination business environment
- Startup founder's glossary: https://www.eu-startups.com/2023/06/the-metrics-playbook-25-metrics-every-startup-founder-should-know/

Selecting Right Funding Sources

STARTUP STAGES AND CORRESPONDING FUNDING NEEDS

As shown in the figure below, a company may generally go through the following stages in its journey, and at each stage it will require different types / amounts of funding.



- **Conception/Idea:** At this stage, you will have developed an idea based on an opportunity in the market, and will begin to refine it. Such an idea should be formed based on prior experience and an understanding of the gaps in the market. At its infancy, your idea is most likely very raw and untested, and at this stage your understanding of the eventual product and business is very basic. You should not seek funding from investors at this stage. Rather, you can, and in some cases should, seek incubation and/or support from dedicated incubators and accelerators.

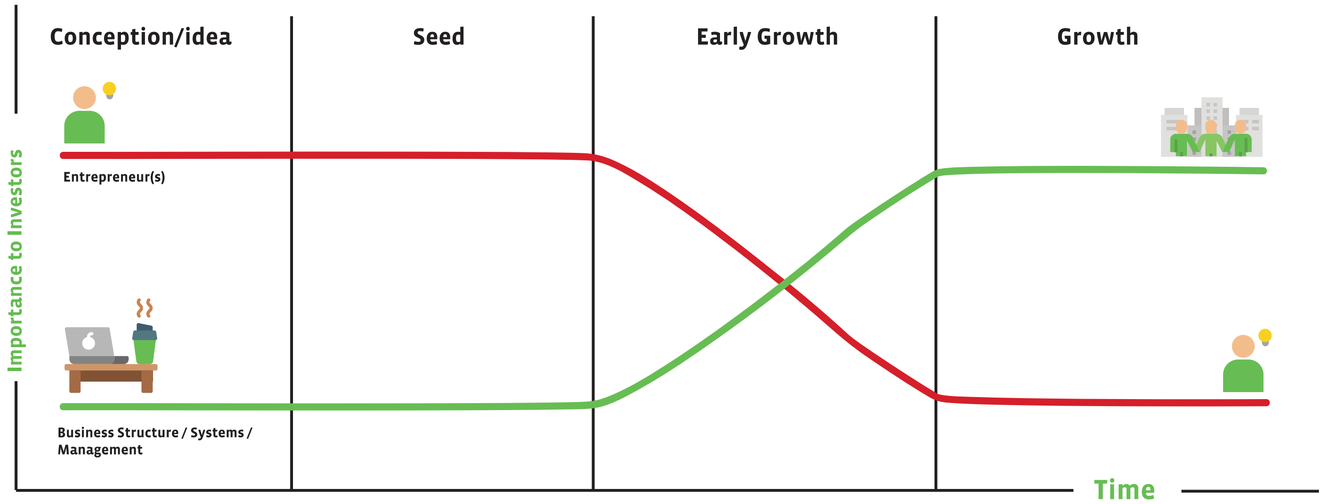
Expert Insight

The first vital decision that entrepreneurs need to take in the beginning of their journey is who they partner up with. Co-founders go through the entire entrepreneurial journey together and thus need to be aligned. Another vital decision is funding; which investors fund the company, and how much equity the entrepreneur gives up. Strategic investors can add incredible value that can help a company scale and grow, whereas other investors may be detrimental to the company's growth. Hiring a strong and capable team that an entrepreneur is able to motivate and retain is vital for business growth as well. Developing the right business model is also fundamental. This includes conducting a full scope market research to verify value proposition, target audience, finding product-market fit, understanding main cost drivers, and main revenue generators and streamlines.

- Reem Goussous , Chief Growth Officer, Village Capital

- **Seed:** At this stage you will have launched your business. Your product may still be a prototype or require further refinement, and your sales will most likely be inconsistent, bringing minimal revenues. You should begin to identify your product or service's fit in the market, and have the potential to pivot. At the seed stage you should still be bootstrapped and taking advantage of all the opportunities offered by incubators and accelerators. However, you may be able to obtain funding based on the promise of your idea and potential—although this will usually be from family and friends, and accelerators and incubators, as opposed to support from more seasoned angel and institutional investors.

Please check case studies in part 4 for examples on challenges faced by startups in conception/idea and seed stages, and in particular crossing the "valley of death".



- **Early Growth:** At this stage, your product or service will have achieved market fit, meaning that there is a need for your product/service in the market and you will have started selling your product or service to customers. However, as a startup you will still be struggling to gain a proper foothold and establish yourself. While you will be generating revenues, you will be struggling to generate profits. As shown in the figure on next page, the emphasis will gradually shift from you as an entrepreneur and the founding team to the startup as the execution team and the company's set of structures, controls, and operating procedures, however basic they may be. Your company will have generated enough data and know-how on the market, and will have developed enough of a skill-set (especially when it comes to tech-oriented startups) to be able to undertake a final pivot if required. While startups at the early growth stage should still be bootstrapping, many will have obtained some type of external funding, even if at low levels. Consequently, they will have an idea of their valuation and have begun serious research on suitable potential investors. Nevertheless, businesses at this stage will generally be struggling with cash flow and will begin contemplating seeking additional funding to manage diminishing reserves of cash.

- **Growth:** At this stage you should have a fully developed product or service and be generating large revenues, with a wide customer base, and a growing presence in the market. You should be focusing on growing your team and evolving your organizational structure, and the

> Expert Insight
>
> *Governance is not just important for large corporates, it is important for startups as well. Governance is vital for maintaining the vision and mission of a startup, particularly when large decisions need to be made. Additionally, it is a key factor that investors look at when evaluating a startup; good governance means that operational day-to-day decision making is efficient and streamlined.*
>
> ***- Reem Goussous , Chief Growth Officer, Village Capital***

controls that come along with it. Proper governance in terms of rules and standard procedures that guide your business operations will become more and more important—it ensures the efficient growth of your startup into an established company. Your rapid growth will, however, mean that you will be struggling to maintain adequate cash flow, and will need to turn to other sources of external funding, including banks and investors. Depending on your growth, you can also be contemplating a Series A funding round, the first round of venture capital funding for a startup (and later potentially B, C, and D rounds) following seed or angel financing, that will enable you to expand your reach and markets. You and your investors should be anticipating exponential returns on investments.

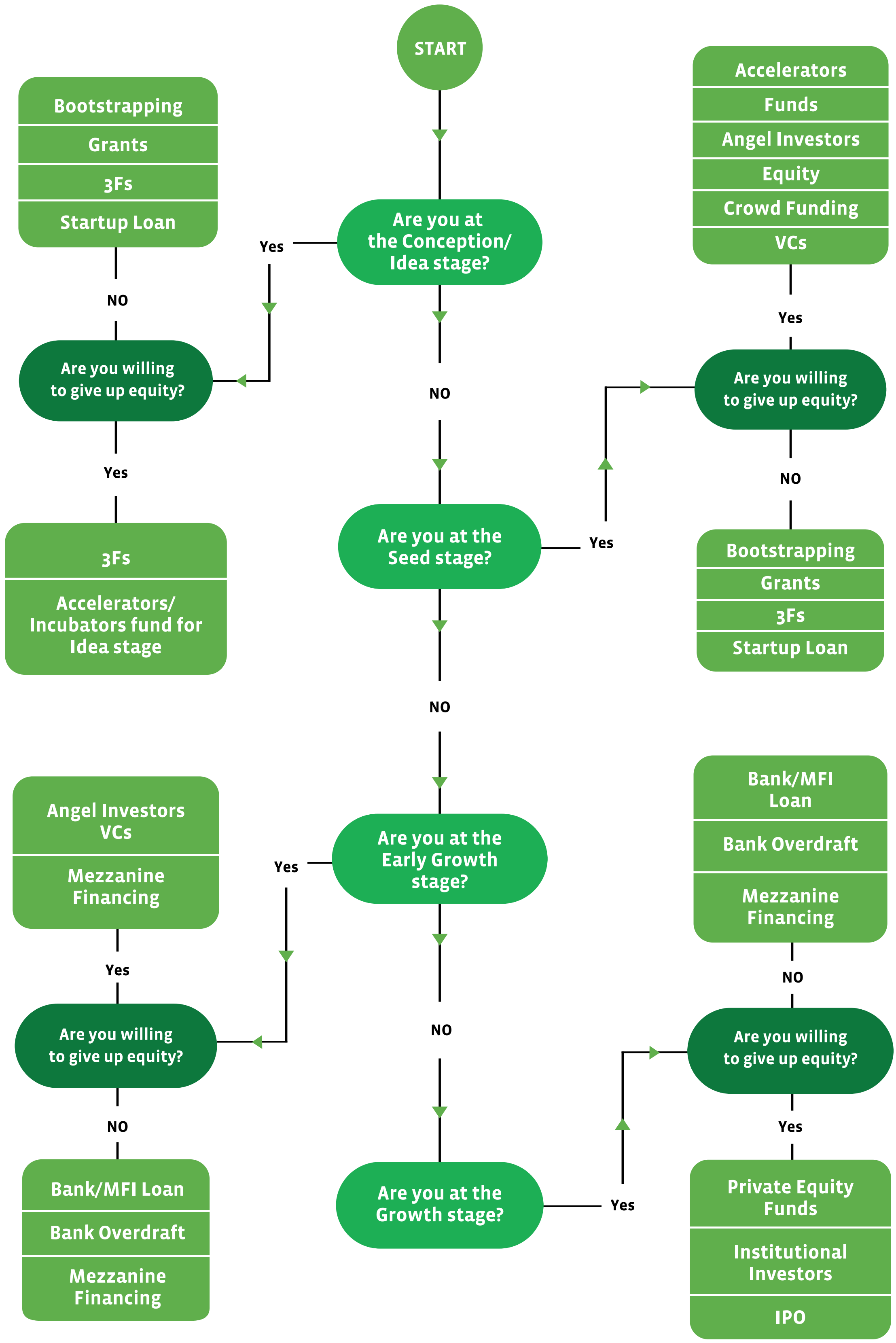
- **Rapid Growth:** Rapid growth for a startup refers to a phase of accelerated expansion that significantly exceeds the average growth rate of companies in the same industry. This period is characterized by a sharp increase in key business metrics such as revenue, user base, market share, and profitability. Rapid growth can occur due to various factors, including successful product launches, market demand surges, strategic partnerships, or effective scaling strategies.

TOOLS TO SUPPORT SELECTING RIGHT FUNDING SOURCES

- **Funding Needs of a Startup by Stage**
  The figure below shows the funding needs of a startup according to their growth stage. The ranges below are not absolute, and vary from case to case, according to region, and depend on specific funders and startups.

Criteria	Conception	Seed	Early Growth	Growth	Publicly Traded Company
Types of Funds	• Personal Savings • Grants • Equity Financing	• Personal Savings • Grants • Equity Financing • Debt (Soft Loans)	• Equity Financing • Mezzanine	• Equity Financing • Mezzanine • Debt	• Equity Financing • Debt
Typical Funding Range	Often below $150k	Between $10k–$2M	Between $1M–$30M	$10M+	$50M+
Source of Fund	• Savings • 3Fs • Incubators and Accelerators • Angel Investors and Micro VCs • Crowdfunding Platforms • Non-Profit Foundations	• Saving • 3Fs • Accelerators • Angel Investors • Early Stage VCs • Development Funds	• Angel Investors • VCs • Banks	• Late Stage VCs • Private Equity Firms • Banks	• Stock Market (IPO) • Banks
Focus of Funding	• Developing Prototype Products • Hiring Critical Team Members	• Funding Product Development • Marketing	• Growing Customer Base • Recruiting Sales, Marketing and Customer Support	• Expanding into Different Market Segments • Hiring Expensive Senior People • Experimenting with Different Revenue Streams	• Acquisition • Expanding into Mew Markets or New Industries

- **Funding Sources Evaluation Tool**
  The following tool provides you with guidance on the right funding sources based on your stage and preferred funding mode.



Related Online Resources:

- All business tools to design your business: https://www.designabetterbusiness.tools/
- Investment readiness toolkit: https://www.greenfinanceinstitute.com/gfihive/toolkit/
- Investment readiness assessment tool: https://www.tedcomd.com/assessment-tool
- Impact investment readiness: https://www.socialinvestmentscotland.com/investment/investment-readiness-tool/
- Business benchmark tool: https://www.thestartupboard.com/myBizScore

Understanding Cost of Capital of Financing Options

For startups, comprehending the cost of various financing options is not just about measuring the financial burden. It's about strategically choosing and managing capital in a way that supports sustainable growth, aligns with the company's risk profile, and maximizes value for both founders and investors. This understanding is a cornerstone of sound financial management and a critical factor in the success and scalability of a startup. Understanding the cost of capital for various financing options, including equity, debt, and grants, is crucial for startups for several reasons:

Informed Decision-Making	• Different financing methods come with different costs. Equity financing might dilute ownership but doesn't require regular repayments, while debt financing means regular interest payments but no ownership dilution. Grants are usually the most cost-effective but can be highly competitive and restrictive.
Long-Term Financial Planning	• Knowing the cost of capital allows startups to plan their long-term financial strategy effectively. It helps in forecasting future cash flows and determining the feasibility of various growth strategies.
Optimal Capital Structure	• Startups need to balance equity and debt in their capital structure optimally. Too much debt increases financial risk, while too much equity dilution can reduce the founders' control over the company. Understanding the cost implications of each helps in maintaining this balance.
Minimizing Financing Costs	• By understanding the costs associated with different types of capital, startups can structure their financing in a way that minimizes these costs, thereby improving profitability and valuation.
Accurate Valuation	• The cost of equity is a critical component in company valuation models like the Discounted Cash Flow (DCF) analysis. A clear understanding of this cost is essential for accurately determining the startup's valuation.
Investor Expectations	• Investors expect returns that are commensurate with the risk they are taking. Understanding the cost of capital helps startups align their business plans with investor expectations.
Risk Management	• Different financing options carry different levels of risk. Debt financing, for example, increases the company's fixed obligations and can impact its risk profile. Understanding these risks is crucial for effective risk management.
Sustainability	• Startups need to ensure that their growth is sustainable. Taking on too much expensive debt or giving away too much equity can jeopardize long-term sustainability.
Negotiation Leverage	• A clear understanding of the cost of capital gives startups a stronger position in negotiations with investors and lenders. They can negotiate better terms by demonstrating an understanding of fair market rates and conditions.
Regulatory Compliance and Tax Efficiency	• For debt financing, understanding the cost implications is important for complying with loan covenants and avoiding defaults. Interest payments on debt are often tax-deductible, which can lower the effective cost of capital. Understanding these tax implications can lead to more tax-efficient financing decisions.

Calculating the cost of capital for various financing options is essential for startups to understand the expenses associated with each funding source. The cost of capital typically includes the cost of equity, the cost of debt, and, in some cases, the cost of grants.

Multiple online calculators are available. Please check the resources section.

Comparing various financing options in terms of cost for startups involves understanding the direct and indirect costs associated with each. Generally, the perceived "cheapness" or "expensiveness" of a financing option depends on several factors, including the stage of the startup, market conditions, and the specific terms of the financing.

- **Debt Financing (Loans):**
  - Cost: Generally seen as cheaper in the short term, especially if the interest rates are favorable. The cost of debt is the interest paid on the borrowed amount, which is often tax-deductible, reducing the effective cost.
  - Indirect Costs: Debt financing increases the company's financial risk due to the obligation to make regular interest payments and repay the principal, regardless of the company's financial performance.

- **Equity Financing (Investment):**
  - Cost: Often considered more expensive in the long term because it involves giving up a portion of ownership in the company. The true cost of equity financing becomes apparent when the company grows in value, as the equity given to investors could be worth significantly more than the initial capital raised.
  - Indirect Costs: Includes potential dilution of control and the need to align with investor expectations and interests.

- **Grants:**
  - Cost: Typically considered the cheapest form of financing as they do not require repayment and do not dilute equity. Grants are essentially "free money" given to support the business.
  - Indirect Costs: The process of applying for grants can be time-consuming and competitive. Additionally, grants may come with specific conditions or requirements that the business must meet.

- **Comparing the Costs:**
  - For Early-Stage Startups: Equity financing might be more accessible and, in some cases, the only option due to the high risk associated with the business. While expensive in terms of potential future value, it doesn't burden the startup with debt repayments during the critical early stages.
  - For Established Startups: Debt financing can be more cost-effective as these businesses may have more predictable cash flows and the ability to service debt. However, it adds a fixed financial obligation.
  - Grants: While ideal in terms of cost, they are not always available or sufficient to meet all the financial needs of a startup. They are best used as supplementary funding.

The "cheapest" financing option depends on the startup's specific circumstances and long-term goals. Equity financing can be expensive in terms of future value and control but offers cash flow flexibility. Debt is cheaper in the short term but increases financial risk. Grants are the most cost-effective but are limited and competitive. A balanced approach, considering both the immediate and long-term implications of each financing type, is often the most prudent strategy for startups.

Example

Imagine "Jordan XYZ Tech," a startup looking to raise JOD 100,000 to expand its operations. The founders are considering three financing options: debt, equity, and grants.

Debt Financing (Loans):

Jordan XYZ Tech can take out a loan at an interest rate of 8% per year.

Cost of Capital:

- The cost here is relatively straightforward—it's the interest rate of 8%.
- This cost is a direct financial expense that will reduce the company's net income.
- Thus, the total cost of the debt for over a 3-year loan, would be JOD 124,000, of which JOD 24,000 is the cost of capital (interest), and JOD 100,000 is the repayment of the original loan amount.

Equity Financing (Investment):

An angel investor is willing to provide the JOD 100,000 in exchange for a 10% ownership stake in the company.

Cost of Capital:

- Calculating the cost of equity is more complex and involves estimating the return the investor expects on their investment.
- If Jordan XYZ Tech is expected to grow significantly, the cost of equity could be high, as the investor will own 10% of a potentially much more valuable company.
- If the company's value increases to JOD 2 million, the investor's share would be worth JOD 200,000, representing an implied cost much higher than the debt option, especially if this growth occurs rapidly.

Grants:

Jordan XYZ Tech secures a JOD 100,000 government grant for technology startups.

Cost of Capital:

- Grants do not require repayment nor relinquish any ownership, so the direct financial cost is JOD 0.
- However, indirect costs may include the time and resources spent applying for the grant and any restrictions or obligations imposed by the grant terms.

Evaluation:

- Debt Financing offers a predictable, fixed cost but requires regular repayments that can strain cash flow.
- Equity Financing does not burden the company with debt repayments and offers additional resources and networking opportunities through the investor. However, it dilutes the founders' ownership and can be more expensive in the long run if the company's value increases significantly.
- Grants are the most cost-effective in terms of direct financial costs but are often competitive and limited to specific projects or purposes.
- In this example, the best option depends on Jordan XYZ Tech's current financial situation, growth prospects, and the founders' willingness to share future profits or company control. Understanding the cost of capital for each option helps the founders make an informed decision that aligns with their strategic goals and financial capacity.

BOOTSTRAPPING

Many businesses succeed in funding the business without any external funding. Bootstrapping is a self-funding approach to financing a startup, where entrepreneurs rely on their own savings, revenue generated by the business, and operational frugality to support growth and development. This method stands in contrast to seeking external funding through investors, loans, or grants. Bootstrapping allows founders to maintain complete control over their business decisions and equity, making it an attractive option for many entrepreneurs.

By relying on personal savings, revenue, or minimal debt, bootstrapped businesses avoid the higher costs associated with equity financing or loans, which demand returns or interest payments. This approach keeps the cost of capital low, as founders retain full equity and control, avoiding dilution and the pressure of investor expectations, thereby aligning financial strategies closely with business growth and operational flexibility.

Advantages:

- Entrepreneurs retain total control over their business decisions and preserve full ownership, avoiding dilution of equity that comes with investor funding.
- Bootstrapping forces startups to focus on building a sustainable business model from the outset, as the primary source of funding is revenue generated by the business itself.
- By not taking on loans, startups avoid debt and the associated interest payments, which can be particularly burdensome for new businesses.
- Without external investors, startups have the flexibility to pivot their business model as needed without seeking approval from stakeholders.

Disadvantages:

- The most significant disadvantage is the limitation on available resources. Growth can be slower since reinvestment is limited to what the business can afford from its own revenue.
- Entrepreneurs often invest their own savings, which increases personal financial risk if the business fails.
- The focus on immediate revenue generation can sometimes mean missing out on larger opportunities that require upfront investment beyond the startup's current means.

Process:

- The process typically starts with the entrepreneur investing their own savings to get the business off the ground.
- Profits from the business are reinvested to fund operations and growth, rather than being distributed as dividends.
- Bootstrapped startups must carefully manage costs, often requiring founders to wear multiple hats and minimize expenses wherever possible.
- The business grows organically based on its ability to generate and reinvest revenue, rather than through significant capital injections.
- Bootstrapping is a testament to an entrepreneur's commitment and belief in their business idea. It requires discipline, cost-effective strategies, and a focus on building a revenue-generating business model. While it may limit rapid scaling, it builds a solid foundation of financial discipline and customer focus, often resulting in a more sustainable business in the long term.

Please read the case study on sustainable tourism below as an example on bootstrapping.

Case Study Sustainable Tourism - Nabil Tarazi

- **Nabil Tarazi's Background and Founding of EcoHotels:** After a career in technology in London and a transformative journey through Australia and Southeast Asia, Nabil Tarazi founded EcoHotels in 2009. His experiences during his travels, which included adventurous and cultural immersions, inspired him to create a unique eco-tourism model in the Middle East.

- **The History and Concept of Feynan Ecolodge:** Constructed in 2005 by the Royal Society for the Conservation of Nature (RSCN), Feynan Ecolodge was inspired by the historical caravanserai. EcoHotels took over its management in 2009, focusing on providing an authentic experience of Jordan's wilderness, history, and culture with minimal environmental impact.

- **Challenges and Successes:** Nabil Tarazi, an electrical engineering graduate from Canada, faced challenges in placing Feynan Ecolodge on the global tourism map, ensuring high service quality, and employing skilled local labor. The lodge's design harmonizes with the environment, using solar power and supporting local communities.

- **Achievements and Impact on Sustainable Tourism:** Under Nabil's management, Feynan Ecolodge received numerous awards, including recognition by National Geographic Traveler and the first prize at the Global Responsible Tourism Awards in 2019. Nabil was a finalist in the Ernst & Young Entrepreneur of the Year 2014 awards and played a significant role in global eco-tourism networks. Feynan Ecolodge won the first prize at the WTM Global Responsible Tourism Awards 2019 for its efforts in reducing CO_2 emissions. This achievement highlights Jordan's role in sustainable tourism and environmental conservation.

Access to Finance:

The funding journey of Feynan Ecolodge, managed by EcoHotels under the leadership of Nabil Tarazi, was blend of strategic partnerships, operational revenue generation and grants.

Key points regarding the funding and financial sustainability of Feynan Ecolodge include:

- **Partnership with the Royal Society for the Conservation of Nature (RSCN):** One of the critical steps in the funding mechanism was the partnership with RSCN. This collaboration provided a foundational support, given RSCN's role in establishing and owning the property. Such partnerships can offer both financial and operational resources essential for launching and maintaining eco-friendly ventures.
- **Operational Revenue:** Once taken over by EcoHotels, Feynan Ecolodge generated its operating income through its eco-tourism business. The lodge offers unique experiences, attracting tourists interested in sustainable and cultural tourism. This operational revenue model is critical for the long-term financial sustainability of the lodge.
- **Awards and Recognitions:** The numerous awards and recognitions received, such as the National Geographic Traveler award and the first prize at the Global Responsible Tourism Awards, while not direct funding sources, likely enhanced the lodge's reputation and attractiveness to tourists, indirectly impacting its revenue.
- **Community Engagement and Environmental Focus:** By focusing on local community engagement and environmental conservation, Feynan Ecolodge aligns with various grant-making organizations and environmental funds' objectives. This alignment may open opportunities for grants or financial support from entities supporting sustainable tourism and community development.
- **Entrepreneurial and Strategic Vision:** The venture has been supported by personal investment initially to register the business as a private share holding company and capital raise via another private investor who shared the vision of sustainable and responsible tourism.

Case Study

Sustainable Tourism - Nabil Tarazi (continued)

While not all details on the bootstrapping methods used by Nabil Tarazi for Feynan Ecolodge are discussed in the case study, these strategies are common among entrepreneurs who start and grow their businesses through bootstrapping. Bootstrapping refers to starting and growing a business without external capital, relying instead on personal finances, the initial sales revenues, or the gradual reinvestment of profit to fund the business's growth. Under this approach, below key strategies has been used:

- **Minimal Initial Investment:** Nabil started Feynan Ecolodge with low upfront investment, focusing on utilizing the existing infrastructure, natural resources and beauty of the Dana Biosphere Reserve to create a unique eco-tourism experience.
- **Reinvesting Profits:** Instead of seeking external funding or loans, Nabil has reinvested the profits generated from the lodge back into the business. This gradual reinvestment helps in improving and expanding the facilities, services, or marketing efforts to attract more visitors.
- **Cost-Effective Operations:** Running an ecolodge in a sustainable manner also means maintaining low operational costs. This involved using solar energy, sourcing food locally to reduce transportation costs, and employing local community members, which not only keeps costs down but also contributes to the local economy.
- **Creating a Unique Value Proposition:** To stand out in the eco-tourism market, Feynan Ecolodge focused on offering unique experiences that can't be found elsewhere, such as authentic Bedouin hospitality, guided nature walks, and cultural experiences. This unique value proposition helps in attracting tourists willing to pay for a unique and sustainable travel experience, generating revenue without the need for heavy marketing or advertising expenses.
- **Leveraging Partnerships and Community Engagement:** By engaging with the local community and forming partnerships, Nabil could have accessed resources, knowledge, and networks that helped in the lodge's development and promotion. Engaging with environmental organizations, tourism boards, and the local community not only provides support and visibility but also helps in aligning the lodge's operations with sustainable and community-focused principles.

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Please read the case study on Dimitri's Coffee below as another example on bootstrapping.

Case Study **Dimitri's Coffee**

Founded in 2014, Dimitri's Coffee is a coffeeshop chain in Jordan dedicated to serving aesthetically appealing specialty coffee. The product of its founder Hisham AbuBaker's addiction to all things coffee, the brand has seen tremendous growth in recent years with a rapidly increasing customer base of coffee lovers. A former pharmacist, Hisham spent the best part of 4 years travelling the world to learn the fine art of coffee roasting, learning from masters in England, USA, and Hong Kong, and immersing himself in different coffee cultures around the world.

The founding of the company is a true story of entrepreneurial grit. Dimitri's initially relied on Hisham's savings, before seeking further investment from family. The company was heavily bootstrapped in the beginning, with staff working 16-hour shifts with no days off for the first 3 months. Commenting on this, Hisham states, "January 1, 2016 was the first operational day of Dimitri's Coffee, and we had used up nearly all our savings in opening our first shop. Three months later the potential was very clear and we either had to stay as we were or work even harder and further increase our momentum to capture a larger share of a virgin market. We decided on the latter, and in April signed to open another branch. Since then we've been growing non-stop alham-dulillah"

The founders' bootstrapping and dependence on their own savings and family funding enabled them to avoid the pressures that could have potentially been applied on them by external investors. Hisham states, "from the beginning we've reinvested every penny we generate back into the company and employee development; we didn't look for investors and rejected a lot of offers as we believe in being free of any pressures that can distract us from implementing our own vision. The partners also helped, foregoing a salary for a very long time."

While Hisham's pharmacy background helped in understanding the scientific aspects of specialty coffee, he and the team learned most of what they applied on the job, with most of the skills they employed as "a direct result of learning from failures, trial and error, and constantly innovating." Additionally, the founders' initiative was a key ingredient in their growth, with Hisham adding, "we established a great relationship with the global coffee community by being a voting member in the Specialty Coffee Association since 2016 and by attending the most important exhibitions and coffee related events and workshops all over the world—it really is a non-stop journey of learning and development."

Finally, he provides poignant advice to young entrepreneurs, stating: "The quality of life for an entrepreneur most of the time is not very appealing to everyone, but it is 100% more meaningful. So, if you are able to sacrifice your comfort zone in return for your passion or a cause that you believe in, then go for it."

Dimitri's Coffee has expanded to 8 branches and developed their own franchise scheme to help further grow the company and network. Also, started a Catering function to enter corporate and events activities.

Primary Financial Instruments

As an entrepreneur at the beginning of your journey you will most likely rely on your own savings and 'bootstrap' through the first few years of your startup. You may also gather funding the 3Fs (Friends, Family, and Fools). These are less likely to request guarantees and/or collateral, audited financial statements, or equity in your startup, which you are less likely to be able to provide during the initial phases of your startup. Friends and family, however, are also generally less likely to provide you with the larger amounts of funding you will need at later stages of your growth.

You will, therefore, need to access more formal financing entities such as banks, venture capital, microfinance institutions, and others. They offer financing instruments such as loans, equity, mezzanine financing, and grants to help finance your startup's growth. Understanding these entities, the funding instruments they provide, and their direct and indirect cost is crucial for you to be able to identify the best possible funding avenue for your startup at each stage and accompanying funding round.

The table below presents primary and secondary financial instruments in simple and short description:

Grants	Debt / Loan	Mezzanine / Quasi-Equity	Equity
Grants are non-repayable funds provided by governments, organizations, or foundations to support specific projects, initiatives, or startups. Unlike loans or equity financing, grants do not require repayment or relinquishment of equity, making them an attractive funding source for early-stage companies or non-profit ventures.	Debt financing involves borrowing funds that must be repaid over time, with interest. It's a common way for businesses to raise capital without giving up ownership. Debt can come in various forms, including bank loans, credit lines, and bonds, and is typically secured by the company's assets or based on its cash flow.	Mezzanine financing is a hybrid form of capital that blends elements of debt and equity financing. It often takes the form of subordinated debt or preferred equity and is typically used to finance the expansion of established companies. Mezzanine financing is more flexible than traditional debt but more expensive due to its higher risk.	Equity financing involves raising capital by selling shares of the company. Investors receive ownership interest in the company, sharing in its profits and losses. This type of financing is crucial for startups and growth-stage companies that may not have the cash flow to support debt financing, offering investors the potential for significant returns.
Low Risk Business	⟷	⟷	**High Risk Business**
Financial Tools			
• **Grants:** Financial awards to support specific projects or operations, requiring no repayment.	• **Microfinance:** Loans aimed at small businesses who lack access to conventional banking and related services • **Asset-Based Lending:** Loans secured by company assets like inventory or receivables. • **Leasing:** Financing that allows businesses to use equipment or property in exchange for regular payments. • **Trade Financing:** Short-term financing to support trade transactions, improving cash flow. • **Cash-Flow Lending:** Loans based on the borrower's projected cash flows. • **Working Capital:** Loans designed to finance everyday business operations.	• **Unsecured/Junior Loans:** Loans that are subordinate to primary loans and are often unsecured. • **Revenue-Based Investing:** Financing repaid through a percentage of monthly revenue. • **Profit Share / Demand:** Agreements to share a portion of profits rather than offering equity. • **Dividend:** Regular payments made to investors from company profits. • **Redeemable Equity:** Equity that can be bought back by the company under agreed terms. • **Convertible Notes:** Debt instruments that can be converted into equity at a later date under certain conditions.	• **Accelerators:** programs designed to rapidly scale companies through investment, mentorship, and educational components over a fixed period. • **Angel Investment:** Individuals who provide capital for business startups, often in exchange for equity. • **SAFE (Simple Agreement for Future Equity):** An agreement granting investors the right to future equity in exchange for immediate funding. • **Shares:** Units of ownership in a company, entitling shareholders to a portion of the profits and losses.

The table below presents distinct requirements and implications for startups, making it important for entrepreneurs to carefully consider their choices in the context of their business's needs, goals, and financial health.

Grants	Debt / Loan	Mezzanine / Quasi-Equity	Equity
Low Risk Business ⟷ **High Risk Business**			
Key Requirements for each Funding Options (Part 1/2)			
• **Grants:** • Submission of a detailed project proposal that aligns with the grantor's objectives. • Evidence of impact, innovation, or contribution to a specific field or community. • Compliance with specific eligibility criteria set by the grantor, such as organizational type, size, and project scope. • Periodic reporting on project progress and fund utilization as required by the grantor.	• **Microfinance:** • Present a comprehensive business plan demonstrating market understanding, revenue generation strategies, and loan repayment plans. • Some funders require loan applicants to complete training or financial literacy programs. • **Asset-Based Lending:** • Collateral in the form of business assets (e.g., inventory, accounts receivable). • A comprehensive business valuation and financial health assessment. • A satisfactory credit assessment of the business. • **Leasing:** • Assessment of the lessee's creditworthiness. • Agreement on lease terms, including duration, payments, and asset return conditions. • Valuation of the leased asset.	• **Unsecured/Junior Loans:** • Acceptance of subordination to other debts in the event of default. • Willingness to pay higher interest rates due to the increased risk to lenders. • Comprehensive financial health assessment to ensure repayment capability. • **Revenue-Based Investing:** • Demonstrable regular revenue streams. • Agreement on the percentage of revenue to be shared with the investor. • A clear exit strategy for the investor, including conditions for full repayment. • **Profit Share / Demand:** • Projections showing profitability and the ability to share profits. • A transparent financial agreement detailing profit-sharing mechanisms. • Open financial records to validate profit calculations.	• **Accelerators:** • Accelerators look for startups with unique, scalable business models that address clear market needs or problems. • A dedicated and capable team with the skills and drive to grow the business is crucial. • Evidence of progress, such as a working prototype, initial users, or revenue, indicating the startup's potential for growth. • **Angel Investment:** • Angel investors prioritize startups with a passionate, skilled, and committed founding team capable of executing the business plan. • A clear, sizable market opportunity that the startup is positioned to capture, indicating potential for high returns. • A business model that can be scaled efficiently, demonstrating how the startup plans to grow and generate significant revenue.

Grants	Debt / Loan	Mezzanine / Quasi-Equity	Equity
Low Risk Business ⟷ High Risk Business			
Key Requirements for each Funding Options (Part 2/2)			
	• **Trade Financing:** • Proof of existing trade transactions or orders. • Creditworthiness of the business engaging in trade. • A solid repayment plan ensuring the loan can be serviced. • **Cash-Flow Lending:** • Historical cash flow records demonstrating consistent revenue streams. • Financial projections showing future cash flow capacity. • A good credit rating to qualify for favorable terms. • **Working Capital:** • Operational history showing the business's track record. • Assessment of the company's short-term financial health and liquidity. • Proof of the ability to repay the loan within the short-term period.	• **Dividend:** • An established plan for profit distribution among shareholders. • Agreed-upon dividend rates and schedules. • A corporate governance structure that supports dividend payments. • Redeemable Equity: • Negotiated terms for equity buy-back by the company. • A mutually agreed valuation method for determining buy-back price. • A timeline and conditions under which equity will be redeemed. • **Convertible Notes:** • An agreed interest rate applied to the loan until conversion. • A maturity date by which the note must be converted or repaid. • Specific conditions under which the debt will convert into equity, including valuation caps or discounts.	• **SAFE (Simple Agreement for Future Equity)** • A valuation cap or discount rate to determine the conversion value of the investment into equity. • Defined triggers for conversion, such as a future financing round or sale of the company. • Terms outlining potential dilution effects on ownership. • **Shares:** • A valuation of the company to determine the price of new shares. • A shareholder agreement outlining rights, responsibilities, and protections for all parties. • Details on voting rights, dividend policies, and any restrictions on share transfers.

GRANTS

A grant is a sum of money that is provided by a grantor free of charge to your business (the grantee). A grant is provided in exchange for a startup or entrepreneur's adherence to certain terms and conditions, or requirements of the grantor, including the continuation or completion of certain activities related to the focus and/or priority of the grantor.

Grants do not require repayment or a share of the business or its profits. They are usually available for non-profit enterprises, however, businesses that have a social impact in areas of interest to the grantor may be eligible to receive grants. Grants can help startups in their early stages as they struggle to obtain other sources of funding, including debt and/or equity investments, due to the small size of their operation, the absence of required financial statements and/or audits, and the limited current profitability of their idea or business. It is mainly for this reason that grants are usually smaller in size in comparison to loans or equity buy-ins, and are generally disbursed in stages according to more stringent milestone requirements, requiring greater and more detailed reporting by grantees.

> Expert Insight
>
> *Choosing the right investor is critical—startups should find strategic investors that add value beyond cash investments. Debt should only be considered when they are able to service that debt, otherwise they should opt for equity. Typically, the amount to be raised is very much dependent on how much the startups needs and the closest valuation that can be defended and accepted by investors. Don't raise too much at the beginning when you are at a relatively low valuation, so that by the time you reach Series A and beyond you still have skin in the game [excess ownership shares that will allow you to raise more funding in exchange for equity in the future]. A bad investor can be detrimental to the company. Also, term sheets and conditions should be revised very well; we assist our startups with that at every round.*
>
> ***- Luma Fawaz, CEO, Oasis500***

Grants are usually disbursed by foundations or charities, public or private bodies, including the government or private sector companies (usually as part of their Corporate Social Responsibility), and national and international organizations. They are usually dedicated to specific expenses, such as capital purchases, marketing costs, consultant salaries, etc. A grant can also be provided in the form of an award or as part of a competition. Applicants here will need to show how their business or idea is relevant to the grant. A judging panel then narrows down the field to several finalists from where the winner or winners are chosen.

Grants can also be provided through crowdfunding campaigns (not to be confused with equity crowdfunding), usually done on the internet. Campaigns could be in the form of a donation, as equity funding for a future project or as debt. Crowdfunding could also be provided as payment for a good or product prior to its availability, in order to raise the required amount of funding for its manufacture. Additionally, there is also reward-based crowdfunding, through which funders are provided with rewards following the completion of a project, including, for instance, invitations to a launch party or mentions in the credits of a film they financed.

Grants can either be responsive or strategic/proactive. Responsive grants are those provided by grantors who are open to receiving unsolicited applications from potential grantees, allowing for greater flexibility in the focus of the grantee's funded activity. Strategic or proactive grants are solicited for a specific purpose, with grant providers publicizing a call for applications and startups having to apply.

Advantages:

- Are given free of charge, with no financial commitments or pay-back requirements
- In some rare cases grantors have commitments to disburse funds and so will approve applications more easily than other funders
- Funders have little influence in the day-to-day operations of the startup

Disadvantages:

- Tend to be smaller in size than loans or equity buy-ins
- Have more stringent eligibility, and often extensive, reporting requirements
- Disbursed in stages, usually taking much longer to disburse than other forms of funding
- Providers of grants can be inflexible in accommodating start-ups that need to pivot from one business strategy to another

Process:

- Grantor receives an application (solicited or unsolicited) from a startup that provides details on its idea and/or goals, operations, financials, and impact.
- Grantor evaluates the application. If it determines that a startup has met the eligibility criteria, it assesses the startup in more detail, comparing its performance and potential with other applicants, and proceeds to undertake due diligence.
- Due diligence is performed, and a startup's financial statements, policies, procedures, and operations are audited.
- If due diligence confirms the startup and/or entrepreneur to be fundable, and the grantor assesses that all eligibility criteria are satisfied, it disburses funding, either fully or in stages (to ensure adherence to the grant's terms and requirements).

Please read the case study on Advanced Construction Technologies below as an example on Grants.

Case Study

Advanced Construction Technologies – Basma & Basel Areiqat

- **Founding and Background:** Basma Areiqat, a pioneering architect in the field of technological and modeled buildings, founded "Konn Homes" in 2020 as a subsidiary of her first company, "Areiqat Architects", established in 2009 with her partner and husband, Basel Areiqat. Her venture into sustainable housing solutions reflects her passion for excellence and innovation in architectural design.
- **Innovative Approach to Housing:** "Konn Homes" specializes in advanced construction technologies and offers comprehensive housing solutions. The company's philosophy revolves around creating homes that are sustainable, built quickly, and are cost-effective. They focus on utilizing digital technologies and modular building techniques to streamline the construction process.
- **Environmental and Economic Impact:** "Konn Homes" aims to provide housing solutions that are environmentally friendly and economically viable. The company emphasizes local manufacturing, which contributes to the national economy, and creates jobs, with a significant focus on empowering women in the construction sector.
- **Expansion and Vision:** Starting with a modest project in 2020, Basma expanded her operations locally and in the Arab market. "Konn Homes" now operates in Jordan and Saudi Arabia, with aspirations for further regional expansion. The company aims to be a leader in future housing solutions, using technology to make the process of designing, buying, and building homes more efficient and sustainable.
- **Distinctive Features and Services:** "Konn Homes" offers a range of residential products, including innovative designs on its digital platform. The company handles all aspects of home construction, from design and financing to key delivery and after-sales services, providing an integrated and user-friendly experience for clients.
- **The Future of Housing:** Basma Areiqat's vision for "Konn Homes" is not just about building homes but revolutionizing the concept of living. By focusing on sustainable practices, innovative technologies, and local production, "Konn Homes" aspires to redefine the future of housing in the region.

Access to Finance:

Basma Areiqat's innovative venture, " Konn Homes," was initially funded through the reinvestment of profits from her previous architectural firm, "Areiqat Architects," co-founded with her partner Basel Areiqat in 2009. This initial enterprise, focusing on architectural design, laid the financial groundwork for " Konn Homes." The concept for " Konn Homes" emerged as a subsidiary project within "Areiqat Architects," exploring sustainable, modular housing and leveraging digital technologies for efficient home construction.

The shift to fully focus on " Konn Homes" was partially due to the challenges faced by the Jordanian construction sector and the impact of the COVID-19 pandemic in 2020, which halted many projects at "Areiqat Architects." This situation necessitated a strategic pivot and intensified focus on the " Konn Homes" project, which had been in the developmental stages since 2019.

Konn Technologies was later funded by Sanabil 500 MENA Seed Accelerator. Additionally, " Konn Homes" gained external recognition and financial support through several prestigious awards. These accolades include the Abdul Hameed Shoman Award, the Union Bank Award, and the European Bank for Reconstruction and Development Award, acknowledging Basma's innovation in sustainable housing. Particularly, the Union Bank Award for Small and Medium Enterprises provided a significant financial boost. This award, selected by an independent panel of judges, came with a monetary prize of 50,000 Jordanian Dinars, which Basma planned to reinvest into further research and development of " Konn Homes."

This combination of self-funding through previous business profits, reinvestment of awards and prize money, and strategic redirection during challenging economic times underlines the resourceful and resilient funding strategy behind " Konn Homes." Basma Areiqat's journey demonstrates her commitment to sustainable development and innovation in the housing sector, creating an economically viable and environmentally friendly solution in the architectural field.

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DEBT

Debt refers to a sum of money given in exchange for payment at a mark-up at a later date. The most conventional type of debt is a loan provided by a financial institution (for example, a bank), at a specified interest rate which the entrepreneur or startup agrees to pay back after a certain period of time.

Banks, microfinance institutions (MFIs) and development banks are the most common source of debt financing, however, debt can also be obtained from family and friends, lending-based crowdfunding platforms, and other financial institutions. Relevant debt instruments include lines of credit, which are essentially loans that provide cover for day-to-day expenses, as well as factoring or invoice discounting, which involve selling accounts receivables (money owed to a business) at a reduced price.

The primary advantage of debt is that it is a cash payment that allows entrepreneurs to avoid giving up equity and can therefore support businesses in expansion if they have stable cash flows and sound projections for growth. Debt does, however, represent varying degrees of risk and has requirements that not all entrepreneurs and startups can meet or afford. Cash is urgently needed at the early take-off stage of a startup to fuel growth, leaving little room to also take on debt.

Debt providers need to ensure that the borrowing business can meet their obligations to repay the debt. They therefore usually request audited financial statements showing solid cash flows and growth for several years, ruling out most startups at the idea, MVP, or seed stage.

Funders also require proof of collateral and/or guarantees or guarantor/s, in case of default, for what is known as secure debt. Collateral usually takes the form of a physical asset, and is either movable (vehicle, warehouse goods, gold and jewelry, etc.) or immovable (real estate). Secured debt is also usually identified as ‘senior debt’, which is paid first in the event of a company’s bankruptcy and liquidation (sale of assets in an effort to recoup losses). ‘Unsecured debt’, while not requiring the presence of collateral and/or guarantor, charges a higher interest rate to account for the higher risk, and is usually identified as ‘subordinated debt’, which is the last to be paid after liquidation.

Debt can also be expensive to pay back. This is especially the case if projections for repayment are inaccurate or external factors alter the ability of the entrepreneur or startup to repay a loan. This is a risk for the debtor.

Nevertheless, many banks, especially those with a developmental mission, offer ‘soft loans’, which come with easier terms and requirements, including zero or low interest rates, interest ‘holidays’ (a grace period, or a period of time when interest doesn’t have to be paid back), longer amortization rates (period through which debt is reduced through regular repayments), the absence of a need for collateral, and other features that reduce the burden on the borrower.

In addition to debt from commercial banks, there are also Islamic, or Shariah-compliant, forms of debt financing. Those are generally tangible, physical, asset-based, and are not interest-based. The most prominent Islamic financing instruments include:

- **Murabaha:** where the seller (usually a bank) buys a good and sells it to a client at a higher final price to be paid in fixed installments.
- **Mudaraba:** where a sum of money provided by the Rabb Al Maal (investor) is invested by a Mudarib (individual or entity, usually the bank), in exchange for a fee.
- **Musharaka:** where two investors or depositors (including businesses) jointly invest sums of money with profits distributed according to a pre-agreed ratio.

Advantages:

- Allows the entrepreneur or startup to avoid giving up equity and keep ownership
- Reporting requirements are not as demanding as with grants
- Different types of debt products and services are available to cater to different business requirements
- Defined and predictable payback periods and amounts provide greater room for planning

Disadvantages:

- Can be expensive to pay back and presents significant risk for entrepreneurs and startups, especially if financial projections change
- Debtors generally have to present financial statements going back several years, as well as collateral and/or guarantors in case of default, ruling out many early stage startups

Process:

- Entrepreneur or startup applies for a loan at a bank, microfinance institution (MFI), or other debt provider (e.g. Development Fund).
- Debt provider requests supporting documentation, including possibly collateral and/or guarantor, a business plan, and audited financial statements (in some cases a minimum of 3 years). The debt provider may also request a meeting with the entrepreneur or startup for a pitch.
- Due diligence is performed, and a startup's financial statements, policies, procedures, and operations are audited.
- If due diligence confirms the startup and/or entrepreneur to be fundable, funds are disbursed.

Please read the case study on Chalk Manufacturing Business below as an example on Debt Financing.

Case Study

Chalk Manufacturing Business - Salah Al-Akoubi

- **Background of the Business and Its Founder:** Salah Al-Akoubi, a Jordanian entrepreneur from the city of Karak, founded one of the world's largest chalk manufacturing businesses. He got the idea in 1995 while working for the Jordan Carbonate Company after learning that Jordan imports all of its chalk needs. Al-Akoubi has a background in chemical engineering.
- **Development of the Business:** Al-Akoubi started his venture by mortgaging properties and taking a loan to build a small two-room factory in Karak. Initially, the factory had only five workers and used modified meat grinders to produce chalk. After continuous efforts and innovations, his company, Jordan Chalk Manufacturing Company, expanded significantly. He experimented with different formulas, making 2149 attempts to produce dust-free chalk, a product that eventually gained high demand globally.
- **Global Reach and Innovation:** The company now exports its multi-purpose chalk products to over 150 countries. Al-Akoubi's company competes with major global producers and has established itself as a significant player in the industry. The products include white and colored chalks, medical chalks that leave no dust, and other related products like crayons for children and chalk pastes.
- **Economic and Social Impact:** The factory covers an area of 7500 square meters and employs around 150 workers, half of whom are female, with many holding university degrees. The establishment of the factory has provided much-needed employment opportunities in the Karak region, where unemployment rates are high. The company has also been innovative in its management style, adapting a work culture that respects local customs.
- **Challenges and Persistence:** Al-Akoubi faced various challenges, including initial skepticism and limited support. His persistence and commitment to his vision played a crucial role in overcoming these challenges. The company's success story is also a testament to Al-Akoubi's dedication to his goal of being the best in his field.
- **Current Status and Future Prospects:** Despite the technological advancements in education and the reduced use of traditional chalk in many countries, there remains a strong demand for Al-Akoubi's products globally. His company continues to thrive and adapt to changing market needs.

Access to Finance:

Salah Al-Akoubi's journey to establish one of the world's largest chalk manufacturing businesses in Karak, Jordan, is a tale of determination and strategic funding. The initial seed for this entrepreneurial venture was planted in 1995 when Al-Akoubi, a chemical engineer, recognized a market opportunity upon learning that Jordan imported all its chalk. To capitalize on this insight, Al-Akoubi embarked on a challenging path to secure funding for his venture.

The funding process began with a significant personal risk. Al-Akoubi mortgaged his father's house and his friend's house to raise initial capital. This bold move underscored his deep conviction in the potential of his business idea. Additionally, he sought external financing to complement his funds. Al-Akoubi secured a loan from Development and Employment Fund (DEF) to build the first iteration of his factory, which started as a modest two-room establishment in Karak, about 120 kilometers south of Amman.

This initial investment was critical in setting up the foundational infrastructure for his business. The small factory began with just five workers, and in an innovative twist, used modified meat grinders to produce the first batches of chalk. Over time, the continuous reinvestment of profits and possibly additional funding helped the business grow substantially.

Al-Akoubi's strategic and resourceful approach to funding exemplifies the entrepreneurial spirit. His willingness to take calculated risks, coupled with his innovative mindset, played a pivotal role in transforming a local business into a global player in the chalk industry. The story of the Jordan Chalk Manufacturing Company is not only about financial investment but also about investing in local resources, innovation, and the sheer perseverance of its founder.

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EQUITY

Equity financing is the provision of cash in exchange for a share of ownership in a company, and does not represent any repayment commitments on the part of an entrepreneur or startup.

Equity investments are designed to be recouped by investors through the future growth of the company, and as a consequence its revenues, or, through the future sale of part or all of the company (an exit). Equity investments range from a few thousand JODs to millions of JODs, depending on the maturity and size of the startup, from the idea to the series stages, with investments typically made by family and friends, angel investors, venture capital funds, and private equity firms.

Equity investments can present significant risk for the investor, as they are not secured by collateral and/or a guarantor, and companies have no payments to make on any cash owed. Investors therefore minimize their risk through a stringent due diligence process that focuses more on the potential of the team to succeed and the entrepreneur's idea or startup, as opposed to cash flows and current market share.

The evaluation process for equity investors therefore looks at the potential of a startup or entrepreneur's idea, the entrepreneur or team's previous experience and skill set, traction (including in the form of an MVP and expanding and retaining user base), and solid business plan and projections. The absence of a guarantee for investors to recoup their investments also means that many investors take more of an active role in the management and operations of a company, depending on the size and share of their investment. It is therefore in an entrepreneur or startup's interest to seek equity financing from supportive investors knowledgeable in their sector, to better their chances of success.

Please read the case study on the cloud-based point-of-sale platform below as an example of equity financing.

Case Study

Cloud-Based Point-Of-Sale Platform - Zeid Husban

- **Funding and Growth:** POSRocket, a cloud-based point-of-sale platform, has successfully raised significant funding, including a recent $5 million investment. The company, established in 2016 by Zeid Husban in Jordan, focuses on developing point-of-sale systems for restaurants and stores using cloud services. The platform assists businesses with comprehensive sales and inventory reports and real-time remote monitoring of sales operations.
- **Entrepreneurial Journey:** Zeid Husban, an entrepreneurial figure in Jordan, began his journey with ifood.jo, an online food ordering platform, and later founded POSRocket. His determination and vision led him to be recognized by Endeavor Global, an organization supporting high-impact entrepreneurs. Husban's strategic planning and forward-thinking approach have been key to his success.
- **Acquisition and Expansion:** Husban's first venture, ifood.jo, was successfully sold, demonstrating his ability to create, grow, and exit a startup effectively. Following this, he founded POSRocket, which has recently been acquired by Foodics, a Saudi company providing tech solutions for restaurants. This acquisition marks an important milestone for POSRocket and Husban, as it enhances the company's position in the tech and cloud services market for restaurants in the Middle East and North Africa.
- **Impact and Recognition:** Husban's work has earned him significant recognition in the entrepreneurial community. His inclusion in Endeavor is a testament to his potential to drive economic growth in the region. His companies have not only contributed to the tech sector but also created employment opportunities and promoted innovative practices.

Case Study — Cloud-Based Point-Of-Sale Platform - Zeid Husban (continued)

Access to Finance:

POSRocket, a Jordan-based cloud point-of-sale platform, secured its funding through several rounds of investments from a mix of regional and international investors. The company's journey in raising capital reflects a strategic approach to financing, targeting investors who add not just financial support but also strategic value to the business.

- **Initial Funding:** POSRocket's early-stage funding included an investment of $650,000, which was pivotal in kickstarting the company's operations. This initial funding came from a group of investors, including regional entities like Arzan Financial Group, Jabbar Internet Group, and Propeller Inc, alongside other undisclosed investors.
- **Subsequent Investment Rounds:** POSRocket continued to attract investor interest, culminating in a significant $5 million funding round. This round was led by several major investment firms, including Finance in Motion, Algebra Ventures, Vision Ventures, Kharazmi Ventures, Jordan's Innovative Startups and SMEs Fund (ISSF), Edgo Group, and Union Bank. The round also saw participation from Seedstars and a group of angel investors from Saudi Arabia.
- **Strategic Use of Funds:** The funds raised were strategically used for business expansion and technological advancement. POSRocket focused on expanding its presence in the Arab world, including markets like Jordan, Egypt, Kuwait, the UAE, Saudi Arabia, Iraq, and Palestine. Moreover, the company invested in enhancing its technology stack, including exploring innovative areas like blockchain and artificial intelligence.
- This multi-stage funding, involving a diverse group of regional and international investors, highlights POSRocket's appeal in the tech startup space. The investments have not only supported the company's growth and expansion plans but also validated its business model and market potential.

Lessons Learned:

several key lessons emerge that are indicative of strategic thinking and adaptability in securing financial support for a startup. These include:

- **Leveraging Personal Experience and Network:** Zeid Husban, with his prior experience in founding and selling the online food ordering platform ifood.jo, had not only gained valuable entrepreneurial experience but also established a strong network. This background facilitated trust and credibility among potential investors for his new venture, POSRocket.
- **Strategic Use of Seed Funding:** POSRocket's initial funding was carefully utilized to develop a product that addressed a clear market need—modernizing point-of-sale (POS) systems with cloud technology. This strategic use of seed funding for product development and market validation likely made the startup more attractive to subsequent investors.
- **Expanding with Series Funding Rounds:** Following the seed funding, POSRocket managed to attract more substantial investments through series funding rounds. This progression demonstrates the importance of showing growth, market fit, and the potential for scalability to secure larger investments.
- **Focusing on a Scalable Solution:** From the outset, POSRocket focused on a scalable solution that addressed a wide market beyond Jordan, including other countries in the MENA region. This scalability was a critical factor in attracting investment, as it promised a larger return on investment.
- **Continuous Innovation and Customer Focus:** Maintaining a focus on continuous innovation and closely aligning the product with customer needs helped POSRocket to grow and attract further funding. It's essential for startups to remain agile and responsive to market demands, which in turn, aids in securing additional rounds of funding.

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As the key point of Investment Readiness is getting an investment, it is important to understand & accept certain equity related concepts (typical in VC investments) straight from the start as explained in below diagram and example:

Assuming a straight (common) equity investment for simplicity, it will require the founder(s) to give up some of their control / voting & economic rights. The math of that is due to dilution, i.e. the percentage of your company you sell to investors in exchange for their money

Some 'rule of the thumb' dilutions would suggest anywhere between 15-25% dilution in each round of investment you take on. This comes form the principal of equity valuation which is discussed in greater details in other sections.

Again rule of the thumb would suggest that each next round should be 2-3 times the value you received in your current or latest round. So, if the business got valued at $1 million in this round, your next round should be at a value of $2 million to $3 million to make further dilution worth it.

An example of a valuation technique for a startup is a 'revenue multiples' whereby you may be negotiating say 5-10x multiple, whereby for a $2 million valuation you will need to be doing $200k in revenue. However, as you will see, even a firm or firm-to-be without revenue, can generate a valuation – as startup investment evaluation is heavily geared towards the team & its unique selling proposition for a certain significant market solution...

Example

Sara is an entrepreneur who has recently set up a company. An equity investor values Sara's company at JOD 10,000 and buys a 10 percent stake in the company for JOD 1,000. Sara's company grows over time and now has a valuation of JOD 100,000. The investor's original stake of 10 percent increases from JOD 1,000 to JOD 10,000, multiplying his equity investment by 10. More discussion of this in part 4.

Advantages:

- No commitments to make cash repayments
- Supportive and knowledgeable investors can make the difference for the success of a startup or entrepreneur

Disadvantages:

- Giving away too much equity too early can severely limit the ability to fundraise at later stages, thereby holding back growth.
- Giving away equity and ownership will lessen control of entrepreneurs and decrease their financial returns
- Impatient investors looking for quick exits can cripple startups

Process:

- Entrepreneur or startup approaches investor for funding.
- If interested, investor invites entrepreneur or startup to a meeting to learn more or go through a pitch, understand the entrepreneur or startup's exact request (amount of funding in exchange for percentage of equity), and may request additional information, including financials, business plan, and references as part of due diligence. Please check next sections of the guide for tips on pitching, Due diligence and Data Rooms.
- Due diligence is performed, and a startup's financial statements, policies, procedures, and operations are audited.
- If due diligence confirms the startup and/or entrepreneur to be investable, investor disburses funding and monitors performance of startup and adherence to terms and conditions of funding.

Expert Insight

We invest in pre-product, so don't expect startups to have financial statements ready. Although we do request projections, and if we are investing post-product then audited financials are a must. For later stage investments we work with founders to create data rooms that have most of their information audited and company statements as well, including cash flow, ageing, etc.

- Luma Fawaz, CEO, Oasis500

MEZZANINE

Mezzanine financing is a hybrid of debt and equity, and provides the lender the right to convert their loan, sometimes at a cheaper rate, into an equity stake in a company at the closing of a new round of funding or in case of default.

Mezzanine is subordinate to senior debt and senior to equity—this means that mezzanine providers, in case of a company's default, receive their money after regular debt providers and before equity owners.

Mezzanine financing is the most complex of the aforementioned funding modalities, mainly because it combines different forms of funding at different stages and is highly customizable. It can therefore offer greater flexibility to lenders and borrowers.

Borrowers generally only access mezzanine financing when they need access to cash quickly. And as mezzanine financing is unsecured, its interest rates are higher than regular debt. Additionally, borrowers may need to make interest payments more frequently than for regular loans, including every month or quarter.

The most prominent type of mezzanine financing is a convertible note: debt that can be converted to equity. This is helpful for companies that still cannot determine their value, especially if they are at an early stage of their growth or operation. While convertible notes specify dates when a company needs to repay the debt (maturity dates) and interest rates, such debt can be converted to equity in the company, according to preset valuations and rates.

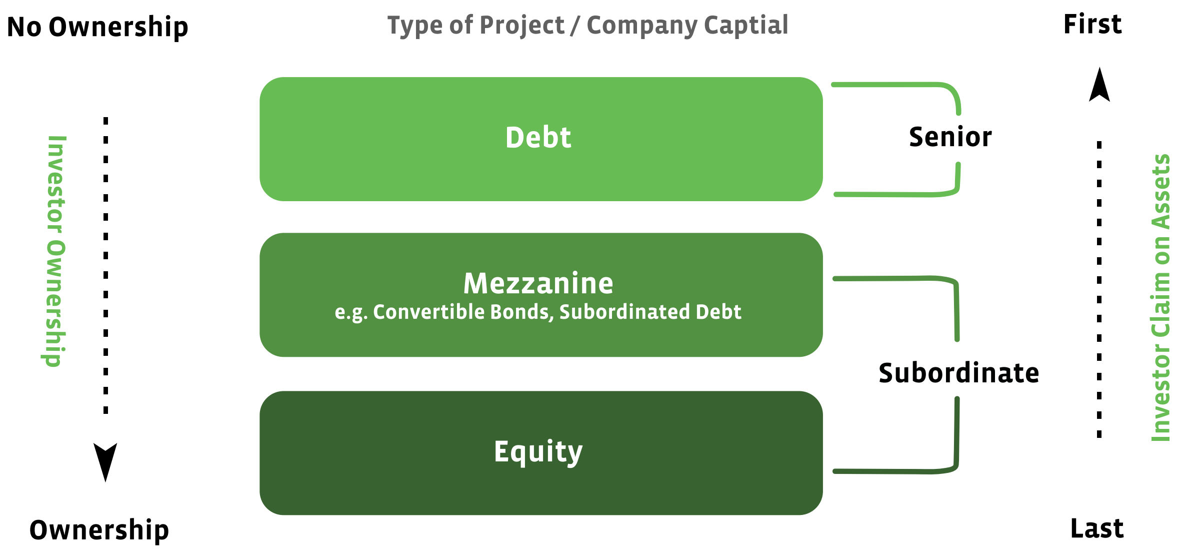
Mezzanine financing sits between senior debt and equity in the capital structure and often involves higher risk for potentially higher returns.
Following is how convertible notes (bonds) can be used in mezzanine financing:

- **Debt-Equity Hybrid:** Convertible notes in mezzanine financing act as a form of debt initially. They offer the issuer (usually a company) the advantage of accessing capital with lower interest rates compared to equity financing. Investors receive regular interest payments on the bond, similar to traditional debt.
- **Conversion Option:** The convertible notes in mezzanine financing come with an embedded option allowing bondholders to convert their bonds into equity (usually common shares) of the issuing company under certain conditions, typically at a predetermined conversion price.
- **Enhanced Return Potential:** By offering the option to convert into equity, these instruments provide potential upside beyond the interest payments. If the company performs well and its stock price rises above the conversion price, bondholders might choose to convert their bonds into equity, participating in the company's growth.
- **Risk-Return Profile:** Mezzanine financing, including convertible notes, generally carries higher risk compared to traditional debt instruments due to the possibility of default and subordination to senior debt. However, investors in convertible notes within mezzanine financing might accept this risk in exchange for potentially higher returns.
- **Company's Perspective:** For the issuing company, using convertible notes in mezzanine financing allows access to capital without diluting existing shareholders' ownership immediately. If the bonds are converted into equity, the company's debt burden decreases, strengthening its balance sheet.
- **Maturity and Terms:** Convertible notes in mezzanine financing come with specific maturity dates, coupon rates, conversion terms, and other conditions outlined in the bond agreement.

Overall, convertible notes in mezzanine financing offer a balance between debt and equity, providing an opportunity for investors to participate in potential equity upside while providing the issuing company with access to capital with certain debt-like characteristics. However, they also involve complexities and risks associated with both debt and equity investments, which should be thoroughly evaluated by both investors and the issuing company.

Example

If an investor and a startup agree on a JOD 100,000 convertible note with a 40% discount, this means that when the startup raises money at a future round, the investor will be able to purchase shares of the company at 60% of the price other buyers would be forced to pay. So, if a startup's shares are priced at JOD 10 during a funding round, the mezzanine investor would be able to buy each share at JOD 6.



Advantages:

- Can offer greater flexibility and reduced risk for lenders and borrowers—lenders can have the best of both worlds (debt and equity), while borrowers can have quicker access to cash
- Can offer better funding terms for entrepreneurs than simple equity since it mitigates risks for investors
- Can delay the valuation of a startup at an early stage, enabling it to reach a more accurate valuation at later stages

Disadvantages:

- Can be expensive and very complicated to structure correctly, especially for inexperienced entrepreneurs
- Entrepreneurs may need to make regular payments to funders

Process:

- Entrepreneur or startup approaches investor for funding.
- If interested, investor invites entrepreneur or startup to a meeting to learn more or go through a pitch, understand the entrepreneur or startup's exact request (amount of funding and modality—equity or interest payment, or a combination of the two) and may request additional information, including financials, business plan, and references as part of due diligence.
- Due diligence is performed, and a startup's financial statements, policies, procedures, and operations are audited.
- If due diligence confirms the startup and/or entrepreneur to be investable, investor disburses funding and monitors performance of startup and adherence to the terms and conditions of funding.

COMPARISON OF PRIMARY FINANCING INSTRUMENTS

The table below provides a comparison of the key aspects of the various financing instruments.

	Financial Instrument			
Aspect	**Grant**	**Debt**	**Equity**	**Mezzanine**
Funder	Donors National and International Foundations Private Corporations (CSR) Crowdfunding Platforms	Banks Microfinance Institutions (MFIs) Private Lending Development Funds	Angel Investors Venture Capital Firms Private Equity Funds Crowdfunding Platforms	Investors
Acquisition of Ownership	No	No	Yes	Sometimes
Cost of Financing	Negligible	Medium to High	Medium	Low to High
Financial Risk to Funder	Low	Low (due to collateral and/or guarantor)	High	Low to High
Financial Return to Funder	None	Interest payments	Dividends with continued ownership, or cash in case of an exit	Interest payments, and/or cash or dividends, depending on structure of financing
Provision of Support to the Entrepreneur	Low to High	Negligible	Medium to High	Low to Medium
Use of Funds	Mostly restricted	Somewhat restricted	Mostly unrestricted	Mostly unrestricted

Please read the case study on Little Thinking Minds below as an example on using multiple funding options.

Case Study **Little Thinking Minds**

Little Thinking Minds is an educational technology company that creates educational products and resources to advance Arabic language learning among school aged children to improve learning outcomes, advance skills, and increase cultural connectedness. Founded in 2004 by Rama Kayyali and Lamia Tabbaa, they currently provide educational programs and resources to over 200 public and private schools in the MENA region, delivering engaging learning experiences to over 80,000 students globally, including refugee children, through remedial school programs. In 2015, they were joined by Salwa Katkhuda, who brought her venture capital background, joined as a co-founder, and currently heads the company's strategy and growth.

The company initially started in Jordan, where its head office is, and the UAE, and over the past four years established an operating presence in Saudi Arabia, Lebanon, Egypt, and Qatar. Its annual revenue exceeded USD 1 million and is expected to grow exponentially.

LTM has been successful in raising funding from a variety of funders. It initially obtained seed funding from Oasis 500, which was followed by an angel round, a bridge round (angel groups, family offices and individuals), and a Series A round (VC funding). All of its funding was in the form of equity, except its bridge round, which was a convertible loan that was converted into equity.

Such funding, however, was only feasible because the startup had been prepared for it and under-stood the legal and financial implications of raising money. Salwa states,

"Entrepreneurs and startups really need to nail down their financials (as they relate to raising money, understanding dilution, correct valuations, etc.) and keep proper track of their runway and their real burn rate. I personally came in as a co-founder because I had this experience which added a necessary and invaluable skill to the team, especially when raising money."

She emphasizes that founders have to make the effort to understand and learn such concepts on their own and refrain as much as possible from outsourcing, stating, "Founders have to understand how to pitch, negotiate and understand financials, otherwise they are not investable. Such skills cannot be outsourced—they're the learning curve founders have to grow through. Additionally, management skills are really important—founders will need to be able to recruit and retain a solid team and grow a healthy company culture in order to turn their vision into a reality.

Little Thinking Minds has raised a total of $2.2M in funding over 8 rounds. Their latest funding was raised on Sep 6, 2023 from a Non-equity Assistance round from Flat6Labs. Little Thinking Minds is funded by 8 investors. Lead investors are Oasis500, Flat6Labs and Algebra Ventures. Other investors includes: Sheraa Shariah, ISSF, Al Turki Group, Mindshift Capital and Women's Angel Investor Network.

Please read the case study on Educational Technology Startup below as another example on using multiple funding options.

Case Study

Educational Technology Startup - Luma Al Adnani & Ibrahim Taha

The Jordanian educational technology startup Adam Wa Mishmish, co-founded by Luma Al Adnani and Ibrahim Taha in 2016, has successfully raised a substantial seed funding of $475,000. This investment round was spearheaded by the Saudi initiative Hadi Badi, which aims to enhance children's creative abilities, and also saw contributions from a number of angel investors in Jordan. A significant part of this funding, amounting to $50,000, came from the Abdul Hameed Shoman Foundation, a Jordanian entity, following the startup's win of an innovation award.

Adam Wa Mishmish was born out of a personal need when co-founder Luma Al Adnani realized the scarcity of quality Arabic educational content for her son, Adam. This led her and her husband, Ibrahim Taha, along with fellow co-founders Lina Al Adnani and Lutfi Zayed, to create engaging and educational Arabic content themselves. The platform primarily uses music as a medium to teach Arabic, aiming to make the learning process both fun and accessible.

Initially, Adam Wa Mishmish was self-funded, and later, they managed to fund seven episodes through the Jordanian crowdfunding site Afkarmena.com. The startup's first season, released on YouTube, received backing from the Abdul Hameed Shoman Foundation, which contributed to the production of the first 48 episodes, a play, and a book series. Adam Wa Mishmish specializes in creating enjoyable Arabic resources that include music, animation, books, and interactive live musical plays.

The startup has also collaborated with Al Salwa Publishers to release a series of board books aimed at children aged 0 to 5. These books, which cover basic concepts from alphabets to numbers, are designed to be engaging and educational, linking each book with a song to foster a connection between children and the written word.

The funding secured by Adam Wa Mishmish is intended to be used for the further development of their educational content and expansion of their services. This includes releasing their curriculum through an application and enlisting hundreds of teachers worldwide. This investment marks a significant milestone for the startup, enabling it to expand its reach and impact in the field of Arabic language education for children globally.

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Secondary & Alternative Financial Instruments

3FS FINANCING

Grants	Debt / Loan	Mezzanine	Equity	Other

3Fs or FFF, standing for "Friends, Family, and Fools," is a widely used term in the startup world referring to early-stage financing obtained from friends, family members, and enthusiastic supporters who may not be traditional investors. This funding source is often one of the first a startup considers, providing essential capital to move from concept to early development and possibly to a stage where the business can attract more formal investment.

Advantages:

- One of the most significant advantages is the accessibility of funds. Entrepreneurs can bypass the rigorous scrutiny and requirements of professional investors or lenders, making it easier and quicker to secure initial capital.
- Loans or investments from FFF are likely to come with more flexible terms than those from traditional financial institutions or venture capitalists. Repayment schedules can be more lenient, and interest rates, if applicable, may be lower.
- Beyond financial assistance, friends and family often provide moral and emotional support, which can be invaluable during the challenging early stages of building a startup.

Disadvantages:

- Mixing business with personal relationships can lead to tension or conflict, especially if the startup struggles or fails. The loss of personal investments can strain or even sever relationships.
- The amount raised through FFF is typically much smaller than what can be obtained from angel investors or venture capital, potentially limiting the startup's ability to scale quickly.
- Unlike professional investors, friends and family may not provide the valuable business guidance, mentorship, or networking opportunities that can be crucial for a startup's success.

Process:

- Clearly articulate your business idea, plans, and financial needs. Be ready to explain how you'll use the funds and the risks involved.
- Present your business idea to potential FFF investors in an honest and professional manner. Treat it as seriously as you would a presentation to formal investors.
- Even though these are informal investments, it's crucial to document everything legally. This includes loan amounts, equity stakes (if applicable), repayment terms, and any other agreements.
- Maintain open lines of communication with your FFF investors. Regular updates on the business's progress can help manage expectations and maintain trust.

MICROFINANCE

Microfinance, a type of financial service aimed at individuals or small businesses who lack access to conventional banking and related services, has become a pivotal tool in fostering entrepreneurship, particularly in developing regions. It encompasses a range of financial products, including microloans, savings accounts, insurance, and payment services. While traditionally associated with alleviating poverty, microfinance has increasingly been recognized as a viable way to finance startups and small enterprises that are too small for traditional bank loans but too large for personal loans or credit cards.

Advantages:

- One of the primary benefits of microfinance is its accessibility to entrepreneurs with limited collateral, credit history, or financial resources. Microfinance institutions (MFIs) often have less stringent requirements than traditional banks, making it easier for startups to obtain financing.
- By providing financial resources to underserved entrepreneurs, microfinance plays a crucial role in empowering individuals and fostering community development. It enables entrepreneurs to launch and grow their businesses, creating jobs and stimulating economic activity in their communities.
- Microloans often come with more flexible terms than conventional loans, including smaller loan amounts, shorter repayment periods, and sometimes grace periods before repayment begins. This flexibility can be particularly advantageous for startups navigating the uncertainties of early-stage business operations.

Disadvantages:

- To offset the higher risk of lending to smaller, less established businesses, microloans often come with higher interest rates compared to traditional bank loans. This can increase the financial burden on startups, particularly those with tight margins.
- While microloans are accessible, the amounts available are typically lower than what might be obtained through banks or venture capital. This limitation can restrict the growth potential of startups that require significant capital investment.
- There's a risk that entrepreneurs may become overly reliant on microloans for financing, which can lead to a cycle of debt if the business does not generate sufficient revenue to cover repayments and fund ongoing operations.

Process:

- Entrepreneurs should start by assessing their financing needs, including the amount required, the purpose of the funds, and their ability to repay the loan.
- It's important to research and select a microfinance institution that aligns with the startup's needs. Consider factors such as loan terms, interest rates, additional services offered, and the institution's reputation.
- The application process typically involves submitting a business plan, financial statements, and personal identification. Some MFIs may also require participation in training programs as part of the application process.
- The MFI will review the application, which may include a site visit and interviews. If approved, the loan terms will be finalized, and the funds disbursed.
- Following disbursement, the entrepreneur will begin repaying the loan according to the agreed-upon schedule. Many MFIs also provide ongoing support and monitoring to ensure the success of the funded startups.

ACCELERATORS

Grants	Debt / Loan	Mezzanine	Equity	Other

Startup accelerators are programs designed to rapidly scale companies through investment, mentorship, and educational components over a fixed period, typically a few months. These programs conclude in a demo day, where startups present their progress and products to potential investors. In general, accelerator programs offer a unique blend of financing, support, and resources for startups ready to take their business to the next level quickly.

Advantages:

- Accelerators typically provide a seed investment in exchange for equity in the startup. This immediate influx of capital can be crucial for early-stage startups looking to scale quickly.
- One of the benefits of accelerators is the access to experienced entrepreneurs, industry experts, and mentors. This guidance can help startups navigate common pitfalls and refine their business strategies.
- Being part of an accelerator program opens up numerous networking opportunities with fellow entrepreneurs, potential customers, and investors. This network can be invaluable for future fundraising efforts and strategic partnerships.
- Accelerators often offer workshops and seminars that cover a wide range of topics, from pitch training to legal advice, helping founders gain the knowledge necessary to grow their business.
- Participating in an accelerator can significantly raise a startup's profile, making it easier to attract further investment and attention from the media and potential customers.

Disadvantages:

- The seed investment usually comes in exchange for equity, which can range from 5% to 10% or more. For some startups, giving up equity early on can be a significant drawback.
- Accelerator programs are fast-paced and require a substantial time commitment from the startup's founding team. This intensity can be challenging, especially for founders juggling multiple responsibilities.
- Gaining entry into top accelerator programs is highly competitive. The rigorous selection process can be a barrier for many startups.
- While accelerators offer a structured program, the one-size-fits-all approach may not align perfectly with every startup's individual needs or stage of development.

Process:

- Startups must first apply to the accelerator program, typically providing detailed information about their business model, team, market potential, and progress to date.
- Shortlisted startups are usually interviewed by the accelerator's selection committee to assess the team's commitment and the startup's potential for growth.
- Once accepted, startups participate in the accelerator's program, receiving funding, mentorship, and support in exchange for equity.
- The program culminates in a demo day, where startups pitch to a room of investors, aiming to secure further funding and partnerships.

ANGEL INVESTMENT

Angel investment represents a critical source of early-stage financing for many startups, offering not just capital but also valuable business expertise and networking opportunities. Angel investors are typically individuals who provide capital for business startups, often in exchange for convertible debt or ownership equity. These investors are willing to take risks on emerging companies with the potential for high returns. Recently, Jordan and the region saw the establishment of several Angel investment networks. These networks are platforms or associations that connect angel investors with entrepreneurs seeking funding. These networks play a important role in the startup ecosystem by facilitating the flow of capital to innovative projects that might otherwise struggle to secure financing through traditional channels like banks or venture capital firms.

For entrepreneurs, gaining access to an angel network can be a significant step toward scaling their business and achieving long-term success. Angel investment networks significantly streamline the fundraising process for startups, saving them considerable time in several key ways:

- **Centralized Access to Investors:** Angel networks provide startups with centralized access to a large pool of potential investors.
- **Pre-Screening and Matching:** Many angel networks pre-screen startups before presenting them to their investors, ensuring that only viable and promising businesses are introduced.
- **Structured Pitching Events:** Angel networks often organize pitching events or demo days where startups can present their business to a group of investors at once. These events provide a platform for efficient communication of business ideas, allowing startups to convey their value proposition to multiple potential backers in a single setting, rather than arranging individual meetings with each investor.
- **Expertise and Guidance:** Angel networks frequently offer mentorship and guidance to startups, helping them refine their business plans and pitches to better appeal to investors.
- **Streamlined Due Diligence:** The collective experience of angel networks can also streamline the due diligence process. This collaborative approach can speed up the decision-making process, allowing startups to secure funding more rapidly.

Advantages:

- One of the most significant advantages of angel investment is the availability of funds at an early stage of the business, where traditional financing options such as bank loans may not be available or suitable.
- Angel investors often bring a wealth of experience and industry knowledge to the startup. They can provide invaluable guidance, mentorship, and strategic advice to help the business grow and navigate the challenges of the startup ecosystem.
- Angel investors typically have extensive networks and can facilitate introductions to potential partners, customers, and future investors. This can be crucial for startups looking to scale and expand their market presence.
- Compared to venture capital firms, angel investors may offer more flexible terms, as they are investing their own money and might be more open to negotiation.

Disadvantages:

- In exchange for capital, startups often have to give up a portion of their equity to angel investors. This dilution of ownership can be a significant disadvantage, especially if the startup becomes highly successful.
- While angel investors understand the risks involved in investing in startups, they also expect a return on their investment. This can create pressure on the startup to perform and achieve growth milestones within specific timeframes.
- As with any investment involving equity, there is a potential for conflict between the startup founders and the angel investors, particularly regarding the direction of the business, strategic decisions, and management issues.

Process:

- Finding the right angel investor often involves extensive research and networking. Startups should look for investors who have a history of investing in their industry or show interest in their business niche.
- Once potential investors are identified, the next step is to pitch the business idea. This usually involves presenting the pitch deck, discussing the business plan, and explaining how the investment will be used to grow the business.
- Interested angel investors will conduct due diligence, reviewing the startup's financials, legal structure, market research, and other relevant documents to assess the viability and potential of the business.
- If the due diligence process is successful, the next step is to negotiate the terms of the investment. This includes the amount of capital, the equity offered in exchange, and any other terms and conditions of the investment.
- Once the terms are agreed upon, the legal documents are prepared and signed, and the funds are transferred to the startup.
- After the investment, angel investors may take an active or passive role in the startup, depending on the agreement.

CROWDFUNDING

Crowdfunding has emerged as a revolutionary way for startups, entrepreneurs, and creatives to raise funds by tapping into the power of the internet and social media. This method involves soliciting small amounts of money from a large number of people, typically via specialized online platforms. Crowdfunding has democratized the funding landscape, allowing individuals and small businesses to access capital that might not be available through traditional financing routes such as banks, venture capital, or angel investors.

There are four main types of crowdfunding:

- **Reward-Based Crowdfunding**: Backers contribute money to a project or venture in exchange for a reward or perk, often tiered based on the contribution level. This reward could be the product itself once developed, or other gifts and acknowledgments. Platforms like Kickstarter and Indiegogo are popular for these campaigns, supporting everything from innovative gadgets to artistic projects.
- **Equity Crowdfunding:** Contributors receive a stake in the company, essentially becoming shareholders. This type of crowdfunding gives startups a way to raise capital without going through traditional venture capital routes, offering a piece of the business's future potential in exchange for immediate funding. Platforms like SeedInvest and Crowdcube examples in global models. Eureeca is a leading regional player, BeeezCrowd is a new local platform.
- **Debt Crowdfunding (Peer-to-Peer Lending):** Investors lend money to individuals or companies with the promise of repayment with interest. This model functions similarly to a traditional loan but is facilitated through crowdfunding platforms, which match lenders with borrowers. Prosper and LendingClub are examples of global platforms that facilitate this type of crowdfunding, and Liwwa in Jordan.
- **Donation-Based Crowdfunding:** Individuals donate to causes or projects without expecting anything in return. This model is often used for charitable projects, personal fundraising efforts, or to support community projects. GoFundMe is a well-known platform that supports donation-based campaigns.

Crowdfunding not only provides a platform for raising funds but also serves as a powerful marketing tool, helping projects gain visibility and validation through social proof. Successful campaigns can attract media attention, build a community of supporters, and validate the demand for a product or service before it hits the market. However, running a successful crowdfunding campaign requires a compelling story, a clear and attractive value proposition, and effective promotion to reach potential backers.

Crowdfunding is still a new financial tool in Jordan. there are several legal considerations startups must navigate to ensure compliance and protect their interests:

- Depending on the jurisdiction, crowdfunding activities may be subject to specific regulations designed to protect investors and maintain market integrity.
- Before publicly disclosing any ideas, products, or services on crowdfunding platforms, startups should secure their intellectual property rights. This involves patenting inventions, trademarking brand names, and copyrighting original works to prevent imitation and ensure that the startup retains control over its innovations.
- Crowdfunding campaigns often require clear communication with a large number of investors. Startups need to manage investor expectations and deliver on promises. This includes providing regular updates, being transparent about risks and challenges, and fulfilling any rewards or commitments made during the campaign.

- Engaging in crowdfunding can create contractual obligations between the startup and its backers, especially in reward-based and equity crowdfunding models. It is important to clearly define the terms of these agreements, including the use of funds, equity distribution (if applicable), and the timeline for delivering rewards or returns.

Advantages:

- Crowdfunding provides an alternative funding route for projects and startups that might not qualify for traditional bank loans or attract angel investors or venture capitalists.
- Running a crowdfunding campaign allows you to gauge consumer interest in your product or service before fully committing to production, reducing the risk of launching a product with no market demand.
- Successful crowdfunding campaigns can help build a community of supporters and early adopters who are invested in your project's success, providing valuable feedback and word-of-mouth marketing.

Disadvantages:

- Preparing and running a crowdfunding campaign requires significant time and effort, including creating promotional materials, campaign management, and fulfilling backer rewards.
- There's no guarantee that your crowdfunding campaign will reach its funding goal. Failure to do so can result in wasted resources and potentially damage your project's reputation.
- Launching a crowdfunding campaign puts your idea into the public domain, increasing the risk of copycats. It also exposes you to public scrutiny and feedback, which can be challenging to manage.

Process:

- Select a crowdfunding platform that aligns with your project type and funding needs (e.g., Kickstarter, Indiegogo, GoFundMe).
- Determine how much money you need to raise to successfully complete your project and set a realistic funding goal.
- Develop a compelling campaign page with a clear, engaging description of your project, attractive visuals, and enticing rewards for backers.
- Use social media, email marketing, and personal networks to promote your campaign and attract backers.
- Engage with your backers, provide updates, and keep the momentum going throughout the campaign duration.
- Once your campaign is successfully funded, fulfill any promised rewards to your backers as soon as possible

SAFE

A Simple Agreement for Future Equity (SAFE) is a financing instrument used by startups to raise capital from investors without immediately issuing equity or determining a company valuation. SAFE exchanges the investor's investment for the right to preferred shares in the startup company when the company raises a future round of funding. SAFE provides startups with a flexible way to secure funding while delaying valuation negotiations until a later financing round, typically during a Series A investment or another significant equity financing event.

Advantages:

- SAFEs offer a straightforward and quick way for startups to obtain funding without the complex negotiations and legal costs associated with equity financing or convertible notes.
- Startups can raise funds without setting a current valuation, which can be advantageous for both founders and investors in the early stages of a company's growth.
- SAFEs convert into equity at future financing events under terms that are favorable to early investors, providing startups with the flexibility to grow without immediate pressure.
- Since SAFEs do not constitute debt, there are no interest payments or maturity dates, reducing the financial burden on the startup.

Disadvantages:

- When SAFEs convert to equity, founders may experience significant dilution, especially if the startup's valuation increases substantially by the next financing round.
- Investors take on the risk that their investment might not convert into equity if the startup fails to secure another round of financing.
- Managing multiple SAFEs with different caps and discounts can complicate future financing rounds and equity distribution.

Process:

- Startups should have a clear business plan and understand how much capital they need to raise.
- Identify potential investors interested in early-stage financing and familiar with SAFEs.
- Discuss the terms of the SAFE, including any valuation cap and discount rate, which will affect the conversion of the SAFE to equity in future financing rounds.
- Draft the SAFE agreement with clear terms regarding conversion triggers, valuation caps, and discounts.
- Once the SAFE is signed, the investor provides the startup with the agreed-upon funding.
- The SAFE converts into equity based on the terms agreed upon during the next significant financing event.

IMPACT INVESTING

Grants	Debt / Loan	Mezzanine	Equity	Other

Impact investing is defined as investing that is "made with the intention to generate positive, measurable social and environmental impact alongside a financial return." Impact investors can be individuals and/or institutions, including banks, investment funds, governments, and others.

Characteristics that define impact investing include:

- Investments that are made with the intention of generating positive social and/or environmental returns.
- Impact investments are made with the expectation that they will also generate financial returns. These returns may be below, above, or equal to the market rate.
- Impact investments can be in the form of debt and/or equity.
- Since impact investors invest to generate impact, they tend to employ robust measurement metrics to ensure their investments are truly making an impact.

Advantages:

- Impact investing can be made across asset classes, with significant opportunity in developing countries, including Jordan, to receive investment
- Many businesses are already engaged in impact investing, and simply need to signify or certify that they are such, in order to be eligible for investment and/or funding

Disadvantages:

- Many businesses are not ready to be able to measure their growth or targets according to occasionally more costly and more detailed standards and/or metrics (including social and/or environmental indicators) impact investors can require

Process:

- Entrepreneurs with a mission to generate social or environmental impact alongside financial returns approach an impact investor.
- Interested investors meet with the entrepreneur to discuss financial and impact goals, funding needs, and equity offered. Entrepreneurs should highlight their impact measurement strategy.
- Investors may ask for financials, a business plan, and an impact measurement strategy to understand how the startup plans to achieve its goals.
- This step expands to audit not just the startup's financials but also its impact measurement and reporting systems, assessing both financial viability and impact potential.
- If due diligence confirms the startup's potential for impact and financial return, the investor disburses funds with conditions related to achieving specific impact objectives.
- Investors monitor both financial performance and impact achievements, requiring regular updates on both fronts. Beyond funding, impact investors may offer mentoring and strategic advice to ensure the startup scales its business and impact effectively.

REVENUE-BASED FINANCING

Grants | Debt / Loan | **Mezzanine** | Equity | Other

Revenue-based financing (RBF) is an innovative funding mechanism that provides startups and growing businesses with capital in exchange for a percentage of ongoing gross revenues. Unlike traditional equity financing, which requires giving up a portion of ownership, or debt financing, which necessitates fixed repayments, RBF offers a flexible alternative tied directly to the company's sales performance. This model has gained popularity globally as it aligns the interests of investors and business owners towards growth, but it was just recently introduced in Jordan.

Advantages:

- One of the most appealing aspects of RBF is that it is non-dilutive. Entrepreneurs can secure funding without giving up equity in their company, retaining full control over their business decisions and ownership.
- Repayments are tied to the company's revenue, making them inherently flexible. During periods of high revenue, repayments increase, and during slower periods, repayments decrease, which can be particularly beneficial for businesses with seasonal sales patterns.
- The process for securing RBF can be faster than traditional equity fundraising, as it may involve less due diligence on the part of the investor regarding Sequity valuation and control mechanisms.
- Since investors receive repayments as a percentage of revenue, they are directly incentivized to help the business grow. This can lead to additional support for the company beyond just financial investment.

Disadvantages:

- While RBF does not dilute equity, it can be an expensive form of financing. The total repayment amount is typically a multiple of the original investment, which can exceed the cost of traditional loans depending on the company's revenue growth.
- Although repayments are flexible, they directly reduce the company's cash flow. Startups need to manage their cash carefully to ensure they can cover operational costs while meeting their repayment obligations.
- RBF is best suited for companies with high gross margins and predictable revenue streams. Startups that are pre-revenue or have highly variable sales may find it challenging to secure or manage RBF.

Process:

- Startups interested in RBF should prepare detailed financial projections to demonstrate their revenue growth potential. This includes historical financial data, if available, and a clear business model showing how the investment will be used to drive revenue growth.
- Not all investors offer RBF, so it's important to research and identify potential financing partners who understand your industry and are aligned with your growth strategy.
- Similar to other forms of financing, investors will conduct due diligence to assess the company's financial health, revenue predictability, and growth potential. This may include a review of financial statements, customer contracts, and the business model.
- Once due diligence is completed, the startup and investor will negotiate the terms of the financing. This includes the investment amount, the percentage of revenue dedicated to repayments, the cap on total repayments, and any other covenants or conditions.
- After agreeing on terms, legal documents are prepared and signed. The funds are then transferred to the startup, and the revenue-sharing arrangement begins.

PROFIT SHARE/DEMAND FINANCING

Grants	Debt / Loan	Mezzanine	Equity	Other

Profit share or demand financing is a unique approach to funding startups, where investors provide capital in exchange for a percentage of future profits rather than equity or interest payments. This model aligns the interests of the startup and the investor towards the company's profitability and offers a flexible repayment structure based on the company's financial performance.

Advantages:

- Investors share in the success of the business, creating a partnership where both parties are motivated to increase profitability.
- Repayments are tied to the company's profits, offering greater flexibility during periods of lower revenue. This can be particularly beneficial for startups with fluctuating income.
- Startups can retain full ownership and control over their business, as this financing method does not require giving up equity.
- Since repayments are profit-based, startups face less financial pressure during slow business periods compared to fixed loan repayments.

Disadvantages:

- If the company becomes highly profitable, the total amount paid to investors can exceed traditional financing costs.
- Structuring profit share agreements can be complex and may require negotiations to define profit calculations and durations of agreements.
- Sharing a portion of profits can significantly reduce the net profits available to the startup, especially in its growth phase.

Process:

- Startups should look for investors open to profit-sharing arrangements, typically found among angel investors or venture capitalists interested in long-term partnerships.
- Clearly define the percentage of profits to be shared, the duration of the agreement, and how profits will be calculated and reported.
- Legal documentation should detail all terms of the agreement, including any caps on payments, minimum profit thresholds for repayments, and termination conditions.
- Establish a transparent system for tracking and reporting profits to ensure accurate and fair payments to investors.
- Follow the agreed-upon schedule for sharing profits with investors, adjusting payments according to the company's financial performance.

LEASING

Leasing is a financing option that allows startups to use equipment, vehicles, or other necessary assets without the upfront costs associated with purchasing them outright. This method can be particularly advantageous for new businesses that need to conserve cash for other areas of operation while still acquiring the assets essential for their growth and operations.

Advantages:

- Leasing reduces the initial capital expenditure, helping startups maintain liquidity and better manage their cash flow. Payments are spread over the lease term, making budgeting more predictable and manageable.
- Leasing enables startups to access the latest equipment and technology without committing to a significant investment. This is especially beneficial in industries where technology evolves rapidly, as it allows businesses to upgrade or replace assets at the end of the lease term.
- Leasing agreements can offer flexibility in terms of the lease term, buyout options, and upgrades. This allows startups to adapt to changing business needs and market conditions.

Disadvantages:

- While leasing reduces upfront costs, the total amount paid over the life of the lease may exceed the cost of purchasing the asset outright.
- Leases come with contractual obligations that can be restrictive. Early termination of a lease can result in penalties, and startups must comply with the terms and conditions set by the lessor.
- At the end of the lease term, the startup doesn't own the asset unless there's a buyout option that the startup decides to exercise. This means there's no asset equity being built over time.

Process:

- Determine what equipment or assets your startup requires.
- Look for reputable leasing companies that offer the assets you need.
- Evaluate different leasing options, focusing on lease terms, costs, and flexibility.
- Choose the lessor with the best terms that match your startup's financial strategy.
- Work with the lessor to finalize the lease agreement, ensuring it aligns with your startup's needs.
- Review and sign the lease contract.
- Once the agreement is signed, the lessor will provide the assets for your use.

TRADE FINANCING

Grants	Debt / Loan	Mezzanine	Equity	Other

Trade financing represents a pivotal financial tool for startups engaged in international trade, offering a pathway to secure the capital needed to purchase goods, manage inventory, and maintain cash flow while awaiting payment from customers. This form of financing is particularly beneficial for startups that operate within the import/export sector or those that require significant upfront investment in goods and materials. Trade finance provides the exporter with receivables or payment according to the agreement while the importer might be extended credit to fulfill the trade order. In Jordan, this support is delivered by organizations such as Jordan Loan Guarantee Corporation (JLGC) established by the Central bank.

Advantages:

- Trade financing allows startups to bridge the gap between receiving goods and making sales, improving cash flow management. This is crucial for maintaining operations without the need for substantial cash reserves.
- With the ability to finance purchases, startups can take on larger orders or expand into new markets without being limited by upfront capital constraints.
- Many trade finance instruments offer protection against international trading risks, such as currency fluctuations, non-payment by customers, and political instability in the supplier's country.

Disadvantages:

- While trade financing provides essential liquidity, it comes at a cost. Interest rates and fees can vary widely and may impact the overall profitability of the transactions.
- Startups may find it challenging to qualify for trade financing without an established track record, adequate credit history, or significant collateral.
- The process can be complex and time-consuming, requiring a thorough understanding of various financial instruments and compliance with international trade regulations.

Process:

- Startups should first assess their financing needs based on their order book, inventory requirements, and payment terms with suppliers and customers.
- Common trade financing instruments include letters of credit, trade credit insurance, export and import factoring, and purchase order financing. Choosing the right tool depends on the startup's specific needs, trading conditions, and risk exposure.
- The startup applies for trade financing through a bank or a specialized financial institution, providing detailed information about the transaction, including contracts, purchase orders, and shipment details.
- Upon approval, the financing institution issues the necessary guarantees or disburses funds directly to the supplier, enabling the startup to proceed with the transaction.
- The startup repays the financing according to the agreed terms, typically after the goods are received and sold to the end customer.

CASH-FLOW LENDING

Grants | Debt / Loan | Mezzanine | Equity | Other

Cash-flow lending is a financing method where loans are granted based on a company's projected future cash flows rather than its tangible assets as collateral. This type of lending is particularly appealing to startups and growth-stage companies that may not have significant physical assets but generate steady revenue streams. It's a critical tool for businesses looking to expand operations, invest in new projects, or manage working capital needs without diluting equity.

Advantages:

- Startups, especially in service or technology sectors, often lack the physical assets required for traditional asset-based lending. Cash-flow lending provides these companies with access to capital based on their business performance and revenue potential.
- Since the loan is based on cash flow and revenue forecasts, the approval process can be quicker than that for loans requiring extensive asset valuation.
- Unlike equity financing, cash-flow lending does not require startups to give up a share of their company, allowing founders to retain full control over their business.

Disadvantages:

- Loans are granted based on projected cash flows, meaning that if a startup's revenue falls short of these projections, it may struggle to meet repayment obligations.
- Given the higher risk associated with lending based on intangible assets like future cash flows, lenders often charge higher interest rates compared to traditional loans secured by physical assets.
- Lenders may impose strict repayment terms, including covenants that restrict certain business activities or require maintaining specific financial ratios.

Process:

- Startups should prepare detailed financial projections demonstrating their ability to generate consistent cash flow. This includes historical financial statements, revenue forecasts, and business plans showing growth strategies.
- Identifying lenders that specialize in cash-flow lending is crucial, as not all financial institutions offer this type of financing.
- The application process involves submitting financial documents, projections, and a detailed business plan to the lender for review.
- The lender conducts a thorough review of the startup's financial health, business model, market potential, and management team to assess the risk of lending.
- If the lender is satisfied with the due diligence results, they will structure a loan agreement outlining the amount, interest rate, repayment schedule, and any covenants.
- Once the agreement is signed, the loan is disbursed for the startup to use as needed. Repayment begins according to the agreed schedule, typically from the company's cash flow.

WORKING CAPITAL FINANCING

Grants	Debt / Loan	Mezzanine	Equity	Other

Working capital financing is a vital financial tool that provides startups and growing businesses with the funds needed to cover daily operational expenses, such as payroll, rent, inventory purchases, and other short-term liabilities. This type of financing is crucial for maintaining liquidity and ensuring the smooth operation of a business, especially for those that experience seasonal sales fluctuations or have long receivables cycles. In Jordan, this support is typically delivered by banks.

Advantages:

- Working capital loans provide immediate funds to cover operational costs, helping startups maintain liquidity without dipping into reserves or long-term investments.
- These loans are typically short-term, offering businesses the flexibility to manage cash flow efficiently and repay the loan quickly as cash becomes available.
- Access to working capital allows startups to seize growth opportunities, such as bulk purchasing discounts or quick market expansions, without straining their cash reserves.
- Unlike equity financing, working capital loans do not require startups to give up a share of their company, allowing founders to retain full control over their business.

Disadvantages:

- Working capital loans come with interest, which can add to the financial burden of a startup, especially if the loan is not managed wisely.
- The short-term nature of these loans means that startups must manage their cash flow carefully to meet repayment schedules.
- Startups may find it challenging to qualify for working capital loans without a solid credit history or significant revenues to demonstrate their ability to repay the loan.

Process:

- Startups should first assess their short-term financial needs and determine the amount of working capital required.
- Identify lenders that offer working capital financing suited to startups, including traditional banks, online lenders, and alternative financing platforms.
- Gather financial statements, cash flow projections, and business plans to support the loan application and demonstrate the startup's financial health and growth potential.
- Submit the loan application along with the required documentation to the chosen lender.
- Work with the lender to negotiate the terms of the loan, including interest rates, repayment schedules, and any collateral requirements.
- Once approved, the loan funds are disbursed to the startup, providing the necessary working capital to cover operational expenses

LOAN LOSS GUARANTEES

Grants	Debt / Loan	Mezzanine	Equity	Other

Loan loss guarantees are financial instruments that provide a safety net for lenders by guaranteeing a certain percentage of a loan amount in case the borrower defaults. This mechanism is particularly beneficial for startups and small businesses that may not have a substantial credit history or sufficient collateral to secure traditional loans. By mitigating the risk for lenders, loan loss guarantees encourage financial institutions to lend to entities they might otherwise consider too risky. In Jordan, this support is delivered by organizations such as Jordan Loan Guarantee Corporation (JLGC) established by the Central bank.

Advantages:

- Working capital loans provide immediate funds to cover operational costs, helping startups maintain liquidity without dipping into reserves or long-term investments.
- These loans are typically short-term, offering businesses the flexibility to manage cash flow efficiently and repay the loan quickly as cash becomes available.
- Access to working capital allows startups to seize growth opportunities, such as bulk purchasing discounts or quick market expansions, without straining their cash reserves.
- Unlike equity financing, working capital loans do not require startups to give up a share of their company, allowing founders to retain full control over their business.

Disadvantages:

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- The short-term nature of these loans means that startups must manage their cash flow carefully to meet repayment schedules.
- Startups may find it challenging to qualify for working capital loans without a solid credit history or significant revenues to demonstrate their ability to repay the loan.

Process:

- Startups should first assess their short-term financial needs and determine the amount of working capital required.
- Identify lenders that offer working capital financing suited to startups, including traditional banks, online lenders, and alternative financing platforms.
- Gather financial statements, cash flow projections, and business plans to support the loan application and demonstrate the startup's financial health and growth potential.
- Submit the loan application along with the required documentation to the chosen lender.
- Work with the lender to negotiate the terms of the loan, including interest rates, repayment schedules, and any collateral requirements.
- Once approved, the loan funds are disbursed to the startup, providing the necessary working capital to cover operational expenses

FACTORING

Grants	Debt / Loan	Mezzanine	Equity	Other

Factoring is a type of finance in which a business would sell its accounts receivable (invoices) to a third party to meet its short-term liquidity needs. Under the transaction between both parties, the factor would pay the amount due on the invoices minus its commission or fees. This method of financing has become increasingly popular among startups seeking quick access to working capital without the need for traditional bank loans or equity financing.

Advantages:

- One of the most significant advantages of factoring is the immediate boost to cash flow. Startups can convert their sales on credit into immediate cash, which is crucial for covering operational costs, such as payroll, inventory, and rent.
- Unlike loans, factoring does not create debt on the company's balance sheet. This means startups can access funds without affecting their debt-to-equity ratio, keeping the company's financial leverage in check.
- Factoring companies primarily consider the creditworthiness of the startup's customers, not the startup itself. This makes factoring an accessible option for new businesses without an established credit history.
- Factors often take over the management of the startup's receivables, including credit checks, collections, and ledger management. This can save startups time and resources, allowing them to focus on their core business activities.

Disadvantages:

- Factoring can be more expensive than traditional financing options. The factor purchases invoices at a discount, meaning startups receive less than the full value of their receivables. The difference between the invoice value and the amount paid by the factor is the cost of the financing.
- Relying heavily on factoring can lead startups to a dependency on external financing to manage cash flow, potentially masking underlying financial or operational issues that need addressing.
- Since factors may directly collect from customers, there's a risk that aggressive collection tactics could harm the startup's relationship with its customers.

Process:

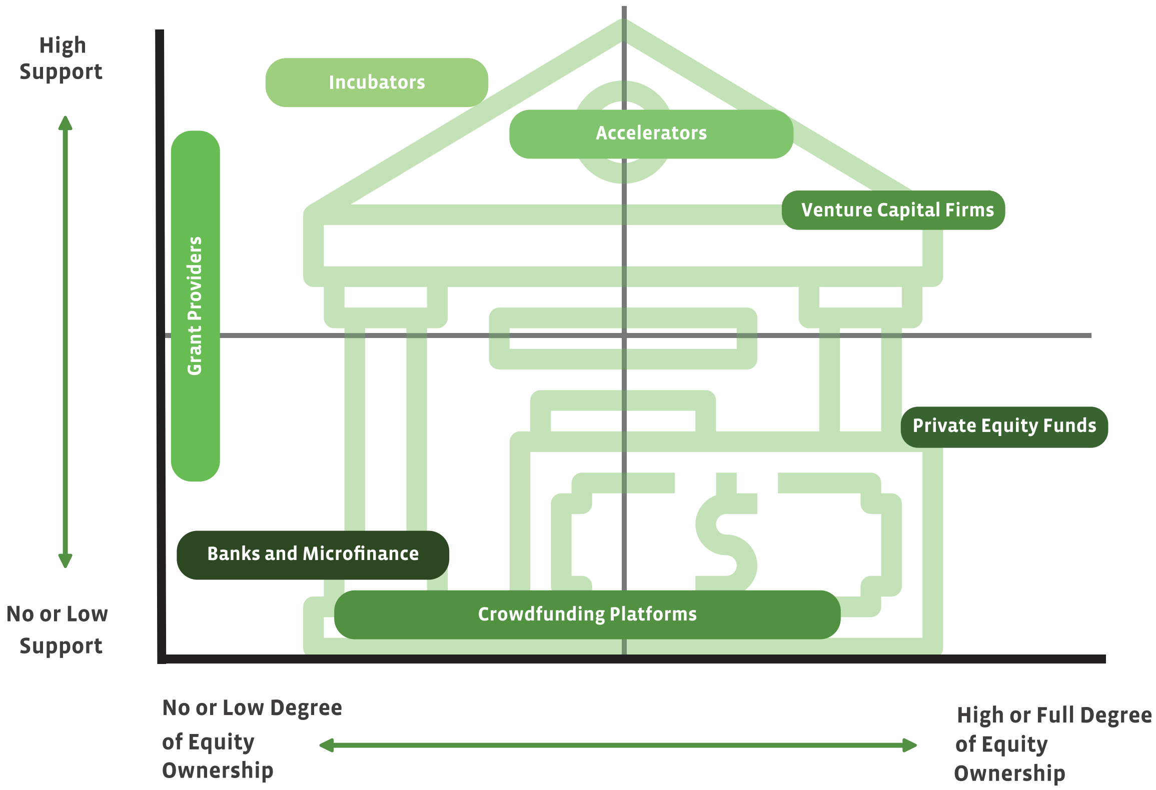
- The startup issues invoices for goods or services delivered to its customers.
- The startup selects which invoices it wants to factor and submits them to the factoring company.
- The factoring company verifies the invoices to ensure the goods or services were delivered as agreed and assesses the creditworthiness of the customers.
- Once the invoices are verified, the factoring company advances a percentage of the total invoice value to the startup. This advance rate can vary but typically ranges from 70% to 90%.
- The factoring company takes over the collection process, directly contacting the startup's customers to settle the invoices.
- Once the invoices are paid in full by the customers, the factoring company pays the remaining balance to the startup, minus a fee for the factoring service.
- Startups can continue to factor new invoices as needed, providing an ongoing source of working capital.

Related Online Resources:

- Weighted Average Cost of Capital: https://calculator.academy/wacc-calculator-weighted-average-cost-of-capital/
- Accelerators in your region: https://www.galidata.org/accelerators/
- Revenue-based financing: https://techcrunch.com/2019/05/18/startups-weekly-theres-an-alternative-to-raising-vc-and-its-called-revenue-based-financing/
- VC glossary: https://www.foundersbox.vc/tools/talk-the-talk/

Funders Overview

The following section includes an overview of all the relevant stakeholders in the entrepreneurial and startup financing ecosystem, ranging from actual financiers, such as banks, microfinance institutions, and venture capitalists, to support organizations, including incubators and accelerators. As shown in the figure below, the funders offer various degrees of support and have varying degrees of ownership in the startups they choose to fund.



Related Online Resources:

- An example on how to plan pitching a marketplace angel: https://fabricegrinda.com/fj-labs-investment-strategy/; for an inside view how one of the most active ones recommends it – i.e. do not pitch a wrong funding source
- Seed funding & options explained: https://www.ycombinator.com/library/4A-a-guide-to-seed-fundraising; for a full guide on how the world's leading accelerator sees it with all the resources and links it used
- Another view at seed funding: https://www.sequoiacap.com/article/sequoia-and-seed-investing/#; as a short guide on how a world's leading VC sees it
- Growth & late track best practices: https://a16z.com/category/company-building/; for how to move beyond startup phase as a world's leading VC sees it

Prepare for Fund Raising Journey

IMPORTANT CONSIDERATION IN PREPARATION FOR FUNDRAISING

Starting a successful business can be a challenging and lengthy process, often complicated by the struggle to access funding early on. However, entrepreneurs should realize that external financing isn't always necessary in the startup's early stages and might even impede growth. Initially, the focus should be on refining the core product or service using available finances, time, and resources, as this will be what ultimately draws investor interest. Seeking external funding too early can introduce various challenges and risks. By adhering to a structured plan for launching the startup, entrepreneurs can mitigate these risks and save significant amounts of money, time, resources, and avoid potential heartache.

Expert Insight

While fundraising is fundamental in accelerating growth, too many entrepreneurs are spending too much time seeking investors and talking to fund managers instead of focusing on sales, closing accounts, and generating revenue, and as a result are met with rejections. Validate your model, grow your business and close deals first, and investors will come after you!

- Marwan Juma, Serial Entrepreneur and Chairman of Oasis500

Please read the case study on a sharing economy startup below as an example on changing the business model and how funding is related to this.

Case Study **Sharing Economy Startup - Romouz Sadeq**

- **Starting and founder:** Mrayti, established in 2016 by Romouz Sadeq, a Marketing and sales expert emerged as a pioneering tech-based startup within the sharing economy, focusing on delivering home-based beauty services. Their unique business model involved an app, similar to Uber, which facilitated the matching of makeup artists with women seeking beauty services at home due to various constraints such as time limitations, commitments, or the presence of children.

- **The rise of the business:** The startup's journey began with the validation of its Minimum Viable Product (MVP) in early 2017, quickly attracting a consumer base in need of its convenient services. The success of the validation, and the strong commitment of the founder, led the business to secure their first investment from an acceleration program, which helped them start building their customer base through some marketing activities, as well as increase their base of services providers from makeup artists in Amman.

  The startup, accordingly, started to get some traction, where the users enjoyed the experience and started to recommend for their peers, which led to a loyal customer-base and somewhat good brand recognition among the targeted group. As the business started growing, the employment opportunities created for the makeup artists, began to be more attractive for donors who are interested in creating more job opportunities, the founder sought that opportunity and started applying for grants, and managed to secure money from these grants to cover the high operational costs of the business, and help them expand their presence, until mid-2018, Mrayti attracted a regional VC to invest in their startup and scale their operations and enhance their technology.

Case Study **Sharing Economy Startup - Romouz Sadeq (continued)**

- **Challenges and strategic mistakes:** Despite the traction they got and the investment and grant opportunities they had access to, the business faced its significant hurdles along the way: the first challenge was that the service margins post-provider fees stood at a modest 30%, insufficient to cover operational and marketing expenses. Additionally, Mrayti encountered a leakage issue where service providers began bypassing the platform, directly engaging with customers, leading to a direct loss of business.

  The founder couldn't identify this hurdle, until the VC funding came around, as during the due diligence conducted by the VC, the founder had to get back to its business numbers and dive deeper into the metrics of the business, where she started building up her financial knowledge and learning more about the ratios she needs to take into consideration. It was at this point that the founder decided that there are important corrective actions to be taken when it comes to the business model and/or the targeted segment. On the other hand, the grants which were one of the main sources of funding for the business, had its own cost, as these grants comes with large requirements from the donors that sometimes leads to divert the business from its original purpose, accordingly the value of the money didn't meet the costs associated with.

- **Strategic Pivot:** In response to these challenges, in 2019, Mrayti's founder explored new opportunities, notably in the wedding services sector, which offered higher margins and scalability. This pivot proved lucrative, with increasing demand prompting a shift in focus towards this industry. Also, another industry had a strong potential, which is the production and beauty services for TV shows and series, where they managed to secure large contracts, which served the purpose of increasing the margins and covering the costs of the business operations.

- **COVID19 and the Final Pivot:** The arise of COVID-19 pandemic in March 2020 and the subsequent government-imposed lockdown in Jordan brought Mrayti's operations to a pause. Faced with ongoing costs and an uncertain future, Mrayti had to make a critical decision: suspend operations or pivot the business model.

  Opting for innovation, Mrayti transitioned to a revenue stream, they always had on the side, and believed it can be expanded to become their core new business offering, which is selling ethically sourced beauty products, positioning themselves as a provider of healthy and ethical beauty solutions. This marked the end of the original service-based model in May 2020, as the company fully embraced the new product-oriented approach. The new pivot significantly improved customer satisfaction and retention due to Automation, reduced overall business cost as customer acquisition cost went down, and provided the ability to benchmark with similar business models locally, regionally and internationally.

Lessons Learned

- **Adaptability in Business Strategy:** Mrayti's evolution from service-based to product-focused offerings underscores the critical importance of adaptability. Entrepreneurs should remain flexible and open to pivoting their business models in response to market demands and operational challenges.
- **Financial Literacy for Founders:** The financial struggles encountered by Mrayti highlight the necessity for founders to have a comprehensive understanding of their financials. This knowledge is vital for making informed decisions about the company's direction and ensuring financial sustainability.
- **Protecting Core Business Interests:** The leakage issue faced by Mrayti, where service providers directly connected with customers, stresses the need for mechanisms that safeguard the platform's value proposition and its central role in the service delivery process.
- **Navigating Funding Complexities:** Mrayti's journey through various funding stages, including accelerators, VC investments, and grants, illustrates the complexity of managing different funding sources. Each comes with its own set of expectations and constraints, which can impact the business in unique ways.
- **Customer-Centric Approach to Innovation:** Maintaining a focus on solving customer problems and meeting their needs has been central to Mrayti's strategy, driving the company's evolution and helping it to find new opportunities even in challenging times.
- **The Double-Edged Sword of Grant Funding:** While grants played a significant role in sustaining Mrayti, they came with stringent donor requirements that sometimes led to deviations from the company's core mission. This experience illustrates that the true cost of grant funding must be carefully weighed against its benefits. Entrepreneurs should consider how grant obligations might impact their business focus and whether the financial support justifies the potential diversion from their original objectives.

Expert Insight

Entrepreneurs should fundraise when they have Proof of Concept and validation of a need for their product in the target market. The first rounds to get to market validation are usually funded by family and friends and/or pre-seed accelerators. The amount that should be raised is the amount that can take the startup to the next valuation and typically gives them 12-18 months of run rate. It usually takes 6-12 months to raise funding at the early stage in Jordan. We always encourage entrepreneurs to only raise the amounts they need and not exceed them, so as not to diminish too much of their equity at an early stage.

- Luma Fawaz, CEO, Oasis500

Please read the case study on Jobedu below as another example on how changing the business model can help in attracting investments and providing an exit for the founders and investors.

Case Study **Jobedu**

Jobedu is one of the most prominent lifestyle clothing brands based in Jordan, and identifies as the Arab region's first pop culture apparel and accessories brand. It's known for incorporating a Jordanian cultural touch to prominent pop culture brands and slogans, and is hugely popular among Jordanian and Arab youth eager for a creative outlet for self-expression. The company is also a merchandising partner for Walt Disney Company and Warner Bros., and sells its goods online, in brick and mortar stores in Jordan and the region, as well as through other distribution outlets.

Jobedu was founded by two Jordanian entrepreneurs, Tamer AlMasri and Michael Makdah, in 2007. The idea came to the two friends out of a desire to "create a brand that represents Arab culture". Starting out selling 600 pieces in Amman's Souk Jara in Jabal Amman in 2007, Jobedu has since opened stores in Jabal Al-Lweibdeh and Abdoun, and outside Jordan, including Dubai.

Jobedu raised funds from family, friends, and various individual and institutional investors, starting out with a USD 4,000 injection of cash from both co-founders, which was followed by increments of funding from family and friends over the next five years. The company's first source of funding from an external investor came in 2014 through Eureeca.com, the crowdfunding investment site, which allowed multiple individual investors to invest in the company. It received further investments over the next five years from Oasis 500, 500 Startups, and various angel investors.

Unlike many tech-enabled or focused startups, Jobedu was able to generate a large customer base quickly due to the popularity of its contemporary and occasionally culturally humorous designs. Tamer states, "Jobedu never had an aggressive marketing strategy. We've been building our audience organically since 2007. We just keep our community engaged and our catalogues fresh and hope it attracts a wider audience." The brand is determined to remain on its current growth trajectory, with Tamer stating, "Jobedu plans on being a global pop culture streetwear brand, akin to Uniqlo but with an Arabic flavor, available throughout North America, Europe and Asia."

In 2022, Jobedu was acquired by the US-based Web3 company Novajax. This acquisition aligns with Novajax's aim to merge the digital and physical realms using blockchain technology and views this move as an opportunity to introduce innovative Web3 technologies to the MENA region and beyond. The new transition heralds the beginning of a new era in the company's history, propelled by the emergence of digital art and the transformative impact of blockchain technology. The ascendancy of Non-Fungible Tokens (NFTs) and the concept of digital ownership presented a unique opportunity to blend the tangible aspects of fashion with the intangible qualities of digital innovation, thereby pioneering an unprecedented concept in the fashion sector.

You will need to know what the valuation of your startup is and what various funding modalities will mean for your financials and your future growth. You should also be aware that not all investors and/or investments will ultimately help you grow your startup; while some investors may provide the required guidance and market access, others may renege on their contracts and demand unfavorable terms. As an entrepreneur you will need to undertake extensive research on potential investors, identifying their strengths, weaknesses, and associated risks prior to approaching them or agreeing on any terms, including giving up some equity and diluting your ownership.

There are other aspects of starting a business that you will need to be aware of along your journey, and which are not necessarily sequential in nature. They include:

- **Networking:** Networking with relevant individuals (including your peers, prominent experts, and potentially, funders) and entities (including support organizations such as business associations, incubators, and accelerators) is vital throughout your business development journey. It helps you validate your ideas, assess the competition, and ensure that you exhaust all opportunities, including those related to fundraising. Startups, especially tech-oriented ones, operate in a rapidly changing market—networking will help you remain relevant and up-to-date. Networking will also help you, in case you are a sole founder in the initial stages of your startup, discover potential co-founders or talent to support you in running and expanding your startup.
- **The Founding Team:** During the initial stages of the startup, you and your founding partners will need to be involved in all aspects of the business, including design, budgeting, marketing, fundraising, negotiating contracts, etc. Having a strong co-founding team from the outset will help you significantly along the way. Due to a probable lack of funding during the initial stages of your startup, you cannot outsource or hire new employees to fulfill many of the aforementioned functions, and you and your partners will be forced to multi-task. While such aspects of running a business can be extremely demanding, they are part of a natural process, allowing you and your partners to save costs and money, while also immersing you fully in all aspects of your start-up.
- **Pivoting:** While you may begin to build around your idea based on the perceived needs of the market, you should be open to the possibility (and probability) that your idea and product may change. That means that you will need to pivot at a certain stage in the future, and sometimes sooner than you think. Many of the largest startups in recent memory, including YouTube, Slack, Airbnb, and others, started out with an idea and had to pivot to something completely different down the line. In the case of Slack, the platform initially started out as a gaming company, before pivoting into an online platform for team collaboration.

VALUING YOUR BUSINESS: METHODS AND TOOLS

When seeking investment or raising equity, understanding your business's value is crucial for both you and potential investors. Various valuation methods exist, each suited to different business types, stages, and models.

The valuation process, while grounded in projections and forecasts, heavily relies on negotiation skills and the justification of those financial projections. Entrepreneurs who are adept at negotiating and understand their business's worth tend to secure more favorable valuations.

For credible business valuations at advanced negotiation stages, seeking expert financial advice is recommended. Valuing pre-revenue startups is challenging, with investments often made based on standard terms set by angel investors or accelerators. These entities typically offer a fixed cash amount and support services for ownership stakes ranging from 5 to 10 percent.

- **Discounted Cash Flow:** The difficulty with accurately estimating the value of your business is that companies are valued based on their potential, as opposed to their ownership of assets or their current revenue generation, both of which are likely to be minimal. The Discounted Cash Flow (DCF) model is therefore the most appropriate for pre-revenue companies, as it values a company based on the estimated future cash flows (through financial projections) and discounts them to the present. The DCF model relies on the assumption that the present value of money is worth more today than in the future, and that a startup's earnings in the future are worth less than at present. The discount rate depends on a number of variables, including inflation and risk, and is likely to vary from investor to investor and from company to company.

- **Multiples:** The Multiple model values companies based on the acquisition price of similar companies and prices the value of your company according to its current multiple relative to the acquired company. For instance, if a company similar to yours sold in the market had sales of JOD 1m and was sold for JOD 5m, its value to sales multiple is 5. Taking the same multiple, if your company is generating JOD 2m, it should sell for JOD 10m. While this approach is perceived to be fair, as it is based to a great extent on actual acquisitions in the market, there are two main drawbacks: (a) acquisitions of similar companies in the market can be few and far between to be representative, and (b) if you are pre-revenue, the multiple you will be using will be based on projections and estimates, which are not always accurate.
- **Net Assets:** The Net Assets model values a company based on the value of its tangible assets, and is therefore more suitable for traditional companies such as retail shops selling physical goods. As the value of most startups today is derived mostly from their intangible assets, as is especially the case with tech-based startups, this model is the least useful and is likely to result in the lowest valuation.

Related Online Resources:

- Invest now, value later – SAFEs: Safe: https://www.ycombinator.com/documents/; for valuation caps, discounts, pro rata side letters…
- Value like a VC pro: https://www.privateequityvaluation.com/Valuation-Guidelines; for an IPEV valuation guide
- Stock market indicators: https://www.macrotrends.net/stocks/stock-screener; for comparing P/E and other traded indicators in your industry
- Summary: https://www.eu-startups.com/2018/10/the-most-common-ways-on-how-to-valuate-early-stage-companies/

PREPARE FUND RAISING RESOURCES & DATA ROOM

A well-prepared fundraising process not only increases the chances of securing the needed capital but also sets the stage for a successful funding relationship.

One key aspect of this preparation is setting up a data room – a secure space where businesses can store and share important documents with potential investors.

A data room is essentially a virtual repository where all relevant documents and information about your business are stored and can be accessed by potential investors. It serves two main purposes: transparency and efficiency. Transparency is achieved by providing all necessary information to investors, enabling them to make informed decisions. Efficiency comes from having all documents organized in one place, streamlining the due diligence process.

Steps to Prepare Fundraising Resources & Data Room:

- **Gather Essential Documents:** The first step is to compile all the documents that investors might need to evaluate your business. These typically include:
  - **Financial Statements:** Balance sheets, income statements, cash flow statements, and financial projections.
  - **Business Plan:** A detailed plan outlining your business model, market analysis, strategy, and goals.
  - **Legal Documents:** Articles of incorporation, business licenses, patents, trademarks, and any legal agreements or contracts.
  - **Product Information:** Details about your product or service, including development stage, technical specifications, and any intellectual property.
  - **Market Research:** Data and analysis on your target market, competition, and industry trends.
  - **Team Information:** Bios and resumes of key team members, highlighting their experience and roles in the company.
- **Organize the Data Room:** Structure your data room in a way that is logical and easy to navigate. Common categories include financials, legal, business plan, team, and product. Each category should have its own folder with relevant documents.
- **Choose a Data Room Provider:** Select a virtual data room provider that offers the security features you need. Look for providers that offer encryption, user permissions, and activity tracking. Popular options include Intralinks, Merrill Datasite, and SecureDocs.
- **Prepare for Due Diligence:** Anticipate questions and requests from investors. This means not only having all documents ready but also ensuring that they are up-to-date and accurately reflect your business's current situation.
- **Maintain Confidentiality:** Set up confidentiality agreements or non-disclosure agreements (NDAs) for potential investors before granting them access to your data room. This protects your sensitive business information.
- **Update Regularly:** Keep your data room updated with the latest information. Regular updates show that your business is active and evolving.
- **Practice Your Pitch:** While the data room is a repository of information, you still need to effectively communicate your business's value proposition. Practice your pitch to complement the data room with a compelling narrative about your business. Tips on pitching to be discussed in part 3 of the guide.

Best Practices for Data Room Management

- **User-Friendly Interface:** Ensure that the data room is easy to use and navigate. A complicated or cluttered data room can frustrate potential investors.
- **Document Control:** Keep track of who has access to what information and manage document permissions carefully.
- **Responsiveness:** Be ready to answer questions or provide additional information that investors might request after reviewing your data room.

- **Feedback Loop:** Use investor feedback to improve the contents of your data room. If multiple investors are asking for the same information, consider adding it to the data room.
- **Confidentiality Levels:** Not all documents need to be available to every viewer. Set up different levels of access based on the seriousness of the investor's intent and the stage of negotiation.

Leveraging Technology in Your Data Room

- **Virtual Data Room (VDR) Software:** Utilize VDR software to create a secure, cloud-based platform for sharing sensitive documents. This software often includes features like document watermarking, time-stamping, and detailed activity tracking.
- **Interactive Elements:** Consider adding interactive elements like financial model simulations or product demos. This can make your data room more engaging and informative.
- **Data Analytics:** Some data room providers offer analytics tools that track which documents are being viewed the most. This can give you insights into what investors are focusing on.

Communicating with Potential Investors

- **Initial Briefing:** When you grant access to your data room, provide a brief overview or guide on how the data room is organized. This can help investors navigate the information more effectively.
- **Regular Updates:** Communicate regularly with potential investors who have access to your data room. Let them know when new documents are added or when significant updates are made.
- **Feedback and Questions:** Encourage investors to ask questions and provide feedback. This can lead to valuable conversations and help you understand their concerns and interests.

After the Fundraising

- **Close the Data Room:** Once fundraising is completed, close the data room or restrict access. This ensures that sensitive information is no longer accessible.
- **Review and Learn:** After the fundraising process, review the performance of your data room. What worked well? What could be improved? This will be valuable for future fundraising efforts.

Data Room Setup Checklist

Company Overview and Executive Summary ☐
- Brief description of the business, mission, vision, and unique value proposition.

Business Plan and Strategy ☐
- Detailed business plan including market analysis, business model, growth strategy, and future plans.

Financial Documents ☐
- Historical financial statements (income statement, balance sheet, cash flow statement).
- Financial projections and budgets for the next 3-5 years.
- Capital structure and current cap table.
- Details of existing investments, loans, and other financial obligations.

Legal Documents ☐
- Incorporation documents and business licenses.
- Shareholder agreements and any stock option plans.
- Contracts and agreements (customer, supplier, partnership agreements).
- Intellectual property documentation (patents, trademarks, copyrights).

Product or Service Information ☐
- Detailed descriptions of your products or services.
- Information on product development stage, technology stack, and IP status.
- User guides, product demos, or access to a demo account.

Market and Competitive Analysis ☐
- Market research, size, and growth projections.
- Competitive analysis and positioning.

Marketing and Sales	Team and Management	Operational Information	Risk Management	Investor Information	Additional Resources
Marketing strategy and sales plans.	Bios of the founding team and key management personnel.	Overview of operations, supply chain management, and production processes.	Identification of key business risks and mitigation strategies.	Information on current investors and board members.	Any relevant press releases, media mentions, or awards.
Key marketing materials and sales collateral.	Organizational chart and employee headcount.	Details on any physical assets, real estate, or facilities.	Any legal disputes or potential litigation.	Investment terms and conditions for the current fundraising round.	Access to a Q&A section or forum for addressing investor queries.
Customer testimonials and case studies.	Information on company culture and values.				

Creating and hosting a data room doesn't necessarily require specialized or expensive software, especially for startups that are mindful of costs. Below are some examples of how you can host data rooms using free or easily accessible solutions:

- **Google Drive:**
  - **How to Use**: Create folders corresponding to the categories in your checklist (e.g., Financial Documents, Legal Documents). Upload the relevant documents into these folders. Google Drive allows you to control who can view, comment on, or edit each document or folder.
  - **Benefits:** Widely used, familiar to many, and integrates well with other Google services.

- **Dropbox:**
  - **How to Use:** Similar to Google Drive, you can use Dropbox to create a structured folder system for your data room. Dropbox offers file and folder sharing with specific people, and you can manage access permissions.
  - **Benefits:** Easy to set up and manage, and provides a basic level of security and control over document access.

- **Microsoft OneDrive:**
  - **How to Use:** If your startup uses Microsoft products, OneDrive can be a good option. You can organize your documents in folders, share them with investors, and set different permission levels.
  - **Benefits:** Integrated with Microsoft Office online, allowing for easy editing and collaboration on documents.

- **Box:**
  - **How to Use:** Box allows you to create a centralized place for all your documents, with features for managing access and permissions, similar to Google Drive and Dropbox.
  - **Benefits:** Focus on security and collaboration, with some free basic plans offering enough features for a small startup's needs.

LEGAL SETUP & OFFSHORE REGISTRATION

Registering a business under the right formation is crucial for its success. The type of company you register as can affect how much funding it can raise, its ownership structure, the taxes it pays, the minimum capital it's required to deposit, and its liability in case of bankruptcy. It's crucial for you as a founder to understand the advantages and disadvantages of each type of company formation before formalizing and registering. A good resource to use that will help you in understanding the process required to register a business is the "Start-up Guide" was published by USAID LENS. **Please check Related Online Resources at the end of this section.**

Registering a business with the appropriate legal structure is a pivotal decision for any entrepreneur. This choice significantly impacts various aspects of the business, including funding capabilities, ownership, taxation, capital requirements, and liability. Understanding the nuances of different company formations is essential for founders to make informed decisions that align with their business goals and strategies.

Key Considerations in Choosing a Business Structure

- **Funding and Capital Raising:** Different structures offer varying levels of ease and options for raising capital. Corporations, particularly Private Shareholding Company, are typically more conducive to raising large amounts of capital through equity financing.
- **Tax Implications:** The choice of business structure affects how a business is taxed. Sole proprietorships and partnerships face personal income tax on profits, while corporations may face double taxation. LLCs offer pass-through taxation, which can be advantageous.
- **Liability Protection:** Personal liability varies significantly across structures. While sole proprietorships and partnerships expose owners to personal liability, LLCs and corporations provide liability protection, safeguarding personal assets from business debts and lawsuits.
- **Operational Complexity and Compliance:** Corporations face more stringent regulatory requirements and operational complexities, including board meetings, record-keeping, and reporting obligations. Simpler structures like sole proprietorships have fewer formalities but offer less protection and benefits.
- **Growth and Exit Strategy:** The long-term vision for the business, including plans for scaling, going public, or exiting, should influence the choice of structure. Corporations, especially Private Shareholding Company, are better suited for businesses planning an IPO or large-scale expansion.
- **Ownership and Management Structure:** Considerations around who will own and manage the business, and how decisions will be made, are crucial. Partnerships offer shared management but require alignment among partners, while corporations have a more defined structure with directors, officers

Types of Company Formations and Their Impacts

Sole Proprietorship

- Advantages: Easy and inexpensive to establish, complete control by the owner, and minimal regulatory burden. Profits are taxed as personal income, which can be simpler for tax purposes.
- Disadvantages: The owner is personally liable for all business debts and obligations. This structure may also limit the business's ability to raise capital as it cannot sell shares.
- Suitability: Ideal for small-scale businesses with low risk and a single owner.

Partnership

- Advantages: Relatively easy to establish, with more capital available as it can be raised from multiple partners. Partnerships benefit from combined skills, resources, and networks.
- Disadvantages: Partners are jointly and individually liable for business debts. Disagreements between partners can affect business operations. Profits are taxed as personal income to the partners.
- Suitability: Best for businesses where two or more individuals want to share ownership and management responsibilities.

Limited Liability Company (LLC)

- Advantages: Owners have limited personal liability for business debts. LLCs offer flexibility in taxation, allowing them to be taxed as a sole proprietorship, partnership, or corporation. They can also attract investors through selling membership interests.
- Disadvantages: More complex and costly to establish than sole proprietorships or partnerships. There may be restrictions on transferability of ownership.
- Suitability: Ideal for medium-risk businesses and owners who want to protect their personal assets while enjoying a flexible tax structure.

Private Shareholding Company (PSC)

- Advantages: Owners have limited personal liability and different shares types and rights. Corporations can raise capital through the sale of stock, which can be attractive to investors. They can also offer stock options or bonuses to employees.
- Disadvantages: More complex and expensive to set up and maintain, with more regulatory requirements.
- Suitability: Best for businesses that plan to go public or seek significant investment.

Nonprofit Corporation

- Advantages: Exempt from income taxes. Can receive public and private donations, which are often tax-deductible for the donor.
- Disadvantages: Must adhere to strict operational and reporting requirements to maintain tax-exempt status. Profits must be reinvested into the organization’s mission.
- Suitability: Ideal for organizations focused on charitable, educational, scientific, or religious missions.

For startups focusing exclusively on the local Jordanian market, the necessity to register a business offshore is significantly reduced. Offshore registration often appeals to businesses seeking tax advantages, international operations expansion, or access to global investment opportunities. However, for startups operating solely within Jordan, prioritizing compliance with local regulations and focusing on the domestic market's needs are more pertinent. Registering locally simplifies legal processes, enhances accessibility to local resources, and fosters stronger connections with the Jordanian customer base. It also avoids the complexities and costs associated with offshore registration, allowing startups to concentrate on growth and development within their home market.

Registering a startup offshore can be a strategic move for attracting international investors, especially for businesses in the MENA region aiming to expand their global footprint. This approach often makes a startup more appealing to a broader range of investors due to several key factors.

Below is some advantages of Offshore Registration for startups targeting global/regional markets and looking forward to attracting International Investors:

- **Favorable Legal Frameworks:** Offshore jurisdictions often offer more business-friendly legal environments. This includes fewer restrictions on foreign ownership, more straightforward processes for business operations, and sometimes more favorable intellectual property laws.
- **Tax Benefits:** Many offshore jurisdictions have lower tax rates compared to onshore locations. This can be a significant draw for investors looking for tax-efficient investment opportunities.
- **Global Credibility:** Registering in a well-known offshore jurisdiction can lend credibility and prestige to a startup, signaling a readiness to operate on an international scale and adhere to global business standards. This credibility can be particularly important for startups from regions where local business practices and regulations may not align with international norms.
- **Access to International Markets:** Offshore registration can facilitate easier access to international markets, making it simpler for startups to expand their operations globally. This is appealing to investors who are looking for companies with the potential for international growth and scalability.
- **Investor Familiarity:** Many international investors are more familiar and comfortable with the legal systems and business environments of certain offshore jurisdictions. This familiarity can reduce perceived risks associated with investing in foreign startups.

Key Offshore Locations for MENA Startups:

- **Cayman Islands:** Known for its investor-friendly environment, the Cayman Islands is a popular choice for startups looking to attract venture capital and private equity.
- **British Virgin Islands (BVI):** The BVI offers a flexible corporate regime and is a favored jurisdiction for international business and investment funds.
- **Delaware, USA:** For startups aiming to attract U.S. investors, incorporating in Delaware can be advantageous due to its well-established corporate laws and investor-friendly environment.
- **Luxembourg:** With its stable economy and favorable tax laws, Luxembourg is a hub for private equity and venture capital, making it an attractive option for startups seeking European investors.

Considerations for Offshore Registration

While offshore registration can offer numerous benefits, it's important for startups to consider the following:

- **Compliance and Legal Obligations:** Understand the legal and compliance requirements in the offshore jurisdiction, including reporting and governance standards.
- **Costs:** Weigh the costs of offshore registration, which can include legal fees, registration fees, and ongoing administrative expenses.
- **Reputation and Perception:** Be mindful of the reputation of the offshore jurisdiction and how it aligns with the startup's long-term strategy and values.
- **Investor Preferences:** Consider the preferences and expectations of the target investor group. Different investors may have preferences for specific jurisdictions based on their investment strategy.

For Jordanian startups and SMES, registering a startup offshore in the Gulf Cooperation Council (GCC) region can offer significant advantages, including access to thriving markets, favorable tax regimes, and investor-friendly environments. Following are some available options in GCC to consider for offshore startup registration:

Saudi Arabia

- KSA started offering several attractive options, reflecting its commitment to diversifying its economy and fostering a vibrant entrepreneurial ecosystem. One primary option for international startups is the Saudi Arabian General Investment Authority (SAGIA), now known as the Ministry of Investment. SAGIA provides licenses for foreign entrepreneurs to establish their businesses in KSA, offering benefits such as 100% foreign ownership, tax incentives, and access to local and GCC markets. Startups can register as a Limited Liability Company (LLC), the most common and flexible business entity, allowing for easier scalability and access to funding. Additionally, the King Abdullah Economic City (KAEC) offers a unique environment for startups, with state-of-the-art infrastructure, strategic location, and a supportive business community. KAEC's Industrial Valley and Business Park are designed to accommodate businesses of all sizes, from startups to multinational corporations, providing a conducive environment for growth and innovation.

United Arab Emirates

- **Dubai:** Dubai stands out as a premier destination for offshore company registration in the GCC. Known for its dynamic economy, strategic location, and state-of-the-art infrastructure, Dubai offers a conducive environment for startups. For example, The Dubai International Financial Centre (DIFC) is particularly attractive for fintech startups, offering a 0% tax rate on income and profits, a robust legal framework, and no restrictions on foreign exchange or capital/profit repatriation. Additionally, the DIFC provides a common-law jurisdiction, which is familiar to many international investors.
- **Abu Dhabi:** Abu Dhabi, the capital of the UAE, is another top choice for offshore registration. The Abu Dhabi Global Market (ADGM) is an international financial center that offers a zero-tax environment, complete foreign ownership, and a legal system based on English common law. ADGM is also appealing for fintech startups due to its supportive regulatory framework and access to regional markets.
- **Ras Al Khaimah:** Ras Al Khaimah (RAK) offers an alternative within the UAE for offshore company registration. The RAK International Corporate Centre is known for its cost-effectiveness, confidentiality, and absence of corporate and personal taxes. It is a preferred location for startups looking for a straightforward and efficient registration process, with the added benefit of being part of the UAE's stable and growing economy.

Bahrain

- Bahrain is increasingly becoming a favored location for startups looking to register offshore in the GCC. It offers a liberal business environment, 100% foreign ownership in most sectors, and no free zone restrictions. Bahrain’s strategic location as a gateway to the Gulf market, along with its progressive regulatory environment, makes it an attractive destination for startups.

Qatar

- The Qatar Financial Centre (QFC) in Doha provides a platform for businesses to establish their operations with benefits such as competitive tax rates, 100% foreign ownership, and full repatriation of profits. The QFC is particularly known for its ease of doing business and has a legal environment based on English common law.

Expert Insight

Startups must understand the importance of starting their business correctly and legally from day one. They should seek legal and commercial assistance as necessary, especially during their early stages. While this may be seen by many startups as an unnecessary cost or expense, mature companies understand it as critical and vital to ensure compliance with the law and to avoid any commercial risks in advance—they see it as an investment that will ultimately prevent the company from encountering unnecessary difficulties in the future.

Many startups are unfamiliar with the legal requirements that relate to their business, including registration. Startups should be aware of the relevant legal requirements, including the laws, rules and regulations applicable in the jurisdiction in which they operate or will operate under. In practice, startups should be aware of whether they are required to register with the social security and tax departments, or otherwise obtain the needed approvals, permits and licenses for their objectives. As an example, a company that undertakes musical production-related work, for instance, has to obtain an additional license from the Media Commission in Jordan in order to legally offer its service. Therefore, it can be said that identifying the main requirements of each business structure, the fees and costs, any boundaries or limitations, the main sanctions and penalties imposed in case of any breach or otherwise, would be a great advantage as it will pave the way for startups to grow without any major obstacles.

Optimal company structure depends on several issues, such as the company's main objectives and activities, its required capital, anticipated life (if known), registration requirements (pre and post), and their main plans for the first couple of years at least. Founders need to know what they're trying to achieve, and by when.

At this early stage, our job is to expose founders to the main legal requirements and boundaries facing their business following an understanding of their potential deals and subsequently highlighting the legal risks, costs and advantages associated with each opportunity. This will help reveal any ambiguity entrepreneurs may have and enable them to choose the best registration structure.

That said, the most common type of registration is the Limited Liability Company (LLC). This could be attributed to cost, as the minimum share capital required to form an LLC structure in Jordan is only 1 JOD. However, this form of registration is not always enabling for startups and their future growth, especially compared to a Private Shareholding Company (PSC), which offers the same type of protection as an LLC but greater flexibility when it comes to fundraising, including adopting different classes of shares, with different management powers.

- Rana Atwan, Partner, Atwan & Partners Attorneys and Legal Consultants

Related Online Resources:

- "Start-up Guide" published by USAID LENS: https://www.startupguidejo.com/ar

FUNDRAISING STAGE

Note: Some of the tips and content in this section are specific to equity financing (investment) as it requires special and different preparations, compared with other funding mechanisms such as grants or debt, but large part applies also to these other funding mechanisms.

The fundraising process varies across debt, equity, and grants, each catering to different stages of a business's lifecycle and offering unique benefits and challenges.

Debt Fundraising involves borrowing money that must be repaid over time with interest. Businesses start by assessing their financing needs and creditworthiness. The process includes identifying potential lenders, such as banks or online lending platforms, and preparing a loan application, which typically requires financial statements, a business plan, and collateral. Approval depends on the business's credit score, revenue, profitability, and sometimes a personal guarantee.

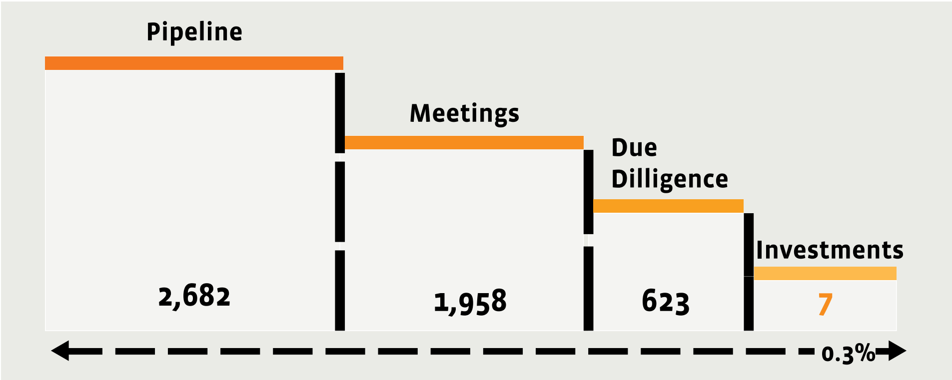
Equity Fundraising entails selling a portion of a business to investors in exchange for capital. This process begins with valuing the business and determining how much equity to offer. Startups often pitch to angel investors or venture capitalists, presenting a compelling business plan, market analysis, and growth projections. Successful pitches result in negotiations over valuation and equity stakes, culminating in a legal agreement that outlines the terms of the investment.

Grant Fundraising is about securing non-repayable funds from governments, foundations, or corporations. The process requires identifying grant opportunities that align with the business's mission and projects. Applicants must submit detailed proposals outlining their objectives, methodology, budget, and impact potential. Unlike debt and equity, grants don't require repayment or giving up ownership, but they often come with strict usage stipulations and reporting requirements.

Each fundraising avenue demands thorough preparation, clear understanding of requirements, and strategic alignment with the business's goals and capabilities.

Funding raising is not easy. For example, Venture Capital industry reports and analyses suggest that only a small fraction of startups receive VC funding. Estimates often range from as low as 1% or less to around 3% of startups. This low percentage reflects the highly competitive nature of VC funding, where VCs are looking for startups with high growth potential, scalable business models, and strong teams. That is why excellent preparations and execution are needed.

A regional example is MEVP, The investment team at MEVP screened over 2,682 applications for funding since the start 2022 that resulted in 7 new investments from MEVF III and MEVF IV listed below:



As example on this from global funds, Andreessen Horowitz (a16z), the prominent Silicon Valley-based venture capital firm founded in 2009, who invested in startups such as Airbnb, Stripe, Slack, GitHub, Lyft, Pinterest, and Asana, out of ~3000 applicants they receive, they look seriously at 200 (~7%) and fund 20 only (<1%)

Seeking Funding Sources

FINALIZE FUNDING STRATEGY & PLAN

Startups that manage to generate sustainable profits by relying on an entrepreneur's savings or funding from family and friends are the exception rather than the rule. Many startups will need to raise funding and approach investors at some stage of their growth. It is therefore critical to be aware of the process to approach investors and the timeline associated with obtaining funding.

Funding Strategy: A funding strategy is a high-level approach that outlines how a startup intends to secure the financial resources necessary for its growth and operations over time. It is more about the "why" and "what":

- Why the company needs funding, identifying the long-term financial goals and objectives of the business.
- What types of funding sources the company will target, such as equity financing, debt financing, grants, or crowdfunding, based on the company's stage of development, industry, and specific needs.
- The funding strategy considers the overall business model, market conditions, and the startup's growth stages. It involves decisions about the mix of financing options that will be pursued and the timing of each funding round to align with the company's development milestones and valuation inflection points.

Funding Plan: A funding plan, on the other hand, is more tactical and detailed. It outlines the specific actions, steps, and timelines the company will follow to execute the funding strategy. It is about the "how":

- How the company will approach potential investors or lenders, including preparing the pitch deck, financial projections, and other necessary documentation.
- How the company plans to negotiate terms, close funding rounds, and manage the relationships with financiers post-investment.
- The funding plan includes detailed schedules for when funding rounds will be initiated, targeted amounts to be raised, specific potential investors or funding sources to be approached, and preparations for due diligence processes. It also outlines the resources (such as human and financial) required to implement the funding strategy.

The funding strategy sets the direction for a startup's financing efforts, defining what needs to be achieved and why. The funding plan lays out the specific steps, timelines, and resources required to make the strategy a reality, focusing on how the goals will be accomplished. Both are essential for successfully securing the funds a startup needs to grow and thrive.

Funders Mapping & Initial Communication

As an entrepreneur heading a startup you will at some stage begin actively looking for funding. To begin, you will need to undertake a mapping of potential funders to approach. While this should be a structured and deliberate process, this does not mean it should be complicated—a funder mapping could be as simple as an excel sheet with a list of funders that are potentially accessible. The database provided in Part 2 can be an excellent resource in helping you identify relevant funders.

Grants Providers Mapping

Clearly outline your project or organization's goals, the amount of funding required, and the specific use of the funds. Understanding your needs will help you identify grant providers whose funding priorities align with your objectives.

Start with a comprehensive research phase. Utilize online databases, government websites, and industry publications to find grant providers. Focus on those that support projects or organizations in your sector. Don't overlook local foundations, corporate sponsors, and international agencies that offer grants to entities in your region or field.

Organize your findings into categories based on factors such as the type of projects they fund (e.g., environmental, educational, technological), the geographical focus, the size of grants offered, and application deadlines. This categorization will help streamline the application process later.

Assess the alignment between each grant provider's objectives and your project's goals. Prioritize providers based on the strength of this alignment and the likelihood of receiving funding.

Develop a calendar that outlines when each grant's application opens, its deadline, and the expected decision date. This will help you manage multiple applications and ensure you don't miss opportunities.

Engage with potential grant providers when possible. Attend industry conferences, workshops, and other events where you might meet representatives from these organizations. Networking can provide valuable insights into what grant providers are looking for in successful applications.

For each targeted grant provider, prepare a tailored application that highlights how your project aligns with their funding priorities. Ensure that you have all the necessary documentation and data to support your application.

Debt Providers Mapping

Begin by clearly defining the amount of debt financing required, the purpose of the loan (e.g., working capital, equipment purchase, expansion), and your preferred repayment terms. Understanding your specific needs will help you target the right type of debt providers.

Conduct research to compile a list of potential lenders. This list can include traditional banks, credit unions, online lenders, and specialized financial institutions offering products like asset-based lending or invoice financing. Don't overlook government-backed loans, which often come with favorable terms.

Different lenders may specialize in certain industries, types of businesses, or loan products. Match your business profile and financing needs with lenders known for supporting similar clients or offering the specific type of debt financing you seek.

Compare the interest rates, fees, loan terms, and collateral requirements of various debt providers. Also, consider the lender's application process and timeline for funding.

Review the eligibility requirements for each lender to ensure your business qualifies. Criteria can include business age, revenue thresholds, credit scores, and profitability.

Based on your assessment, shortlist lenders that offer the most favorable terms and are a good fit for your business's financing needs and repayment ability.

Gather necessary documentation, including financial statements, business plans, and collateral details, tailored to the requirements of your shortlisted debt providers.

Initiate contact with your shortlisted lenders to discuss your financing needs. Submit applications to those that offer the best fit and terms for your business.

Investment Providers Mapping

Clearly understand how much capital you need and what you are willing to offer in return. Consider your business stage, industry, and growth potential, as these factors influence the type of equity providers you should target.

Start by identifying a broad range of potential investors, including angel investors, venture capital firms, private equity firms, and strategic investors. Use online databases, investment networks, and industry reports to create a list of potential equity providers.

Segment your list based on criteria such as investment focus (industry, stage of business, geographic location), investment size, and previous investment history. This helps in targeting the right investors for your business.

Research each investor's expectations regarding return on investment, involvement in business operations, and exit strategy. Aligning your business goals with investor expectations is crucial for a successful partnership.

Tailor your business plan and pitch deck to address the specific interests and concerns of each category of investors. Highlight how your business aligns with their investment criteria.

Attend industry events, conferences, and networking sessions to meet potential investors. Use LinkedIn and other professional networks to connect with investors and get introductions from mutual contacts.

Reach out to targeted investors with a personalized approach. Provide a concise and compelling overview of your business and express why you believe there's a mutual fit.

Maintain communication with potential investors who show interest. Be prepared to provide additional information, including detailed financials, market analysis, and growth projections.

You should have an idea of what else, other than funding, investors can bring to the table. Will they offer you expertise in the sector you are engaged in? Are their connections important enough, and can they open doors? Critically, will they have enough time to devote to your startup? All of this should be taken into account when evaluating investors.

Many investors are not willing to be lead investors (investors who are typically the largest investor in the funding round and can have a significant influence on the direction and strategy of the company). Instead, they will need to know if there is an initial investor that has taken the risk and done the due diligence on your startup. It is important to know which investors are not lead investors before you approach them, otherwise you are simply wasting your, and their, time. You should instead be focused on identifying and securing funding from lead investors, who can more easily secure, or direct you to, other follow-on investments. Lead investors, in addition to conducting due diligence on your firm, can take a more active role in advising your startup, which is vital during your early stages of growth.

You should also have an idea of the reputation of the investors you are seriously considering, before approaching them. Some investors will be known for delaying payments to startups, negotiating severely restrictive terms, and even sharing confidential information with competing investee companies in their portfolio.

You should also be cautious of impatient investors seeking quick exits. One way to ascertain such information is to be active in your space, constantly networking and generating new connections.

Expert Insight

For top founders, the fundraising process becomes a way for them to learn more about their own businesses through the questions that investors ask and in discussions with them. These founders understand that VCs can contribute insight given their position in the market and exposure to different business models, as well as from previous experience in various fields.

- Lana Ghanem, Managing Director, Hikma Ventures

Finally, you need to be aware of any conflicts of interest that can arise with a potential investor, and you will need to disclose any close relationships you have with individuals from the outset, in order to ensure legal and regulatory compliance. Even the appearance of conflicts of interest and the potential reputational damage they can cause can severely affect your startup's chances of attracting future rounds of funding.

CONTACT FUNDING SOURCES AND ENGAGE IN RELATED NETWORKING ACTIVITIES

Once you have completed your mapping, you can begin to approach investors. For some, you may be required and expected to go through specific channels, including submitting an application online. For others, you may be able to initiate a conversation through email, over the phone, or in-person. For such approaches, a personal connection through your close network is always more preferable to a cold call or an unexpected introduction. Your close contacts can vouch for you, and their strong reputation will help build trust early on in the process. Additionally, startups that have raised money from the same investor are usually the best introducers, especially if they are successful, as they will be more credible and trusted by the investor.

Related Online Resources:

- Tools to Evaluate Your Startup Funding Options: https://fastercapital.com/content/Tools-to-Evaluate-Your-Startup-Funding-Options.html; by FasterCapital, an online incubator
- Founder financing & funding tools: https://www.founderpass.com/ ; https://foundersuite.com/ ;

Pitching and Negotiations

PRESENT TO MAJOR STAKEHOLDERS

If investors are impressed, or at least intrigued, they will either invite you to pitch or will request your slide deck or business plan. Investors will want to see that you are on top of things and that you can deliver what they request in a short timeframe. If you take too long to schedule a pitch or send your business plan, an investor may perceive you as moving too slowly for their own liking.

You should be aware that you will probably receive dozens of rejections from investors before succeeding in raising funding. Do not take rejections personally but instead try to solicit feedback as to why investors have declined to invest in your startup. Ask them to be brutally honest and be prepared for some very tough answers—investors are usually very experienced and can see your blind spots. Getting valuable feedback as early in the process as possible will save you further rejections, time spent, and heartache. Addressing it accordingly will get you closer to convincing another investor down the line to give you the funding you need.

A pitch shows potential investors an entrepreneur's idea, its potential, and alignment with investors' priorities. It also shows an entrepreneur's passion, character, and capacity to meet the demands of a startup. It can, and usually does, make all the difference—an excellent pitch may make up for some weaknesses with a startup, but a poor pitch will almost surely kill a promising startup's chances with an investor.

By the time entrepreneurs pitch, just before investors begin contemplating investing in a startup, investors will want to see the following:

- **Minimum Viable Product (MVP):** Investors will want to see strong evidence of an MVP or working prototype that you can showcase during a pitch. It needs to be sufficiently developed and tested so that your demo proceeds without any glitches.

- **Right Team:** Investors will want to see that the startup's team has the right mix of talent, experience, knowledge, integrity, passion, and willpower to succeed. They will also want to see that a startup has the right number of team members. One founder trying to do it all may show investors that such an individual cannot manage themselves or work with other people, while a team with too many members at an early stage can show that a startup does not understand the importance of bootstrapping and may be careless in spending investor money, appointing employees unnecessarily.

- **Market Knowledge and Traction:** You will need to illustrate advanced knowledge of the market and a track record to show that your product or service is validated and has potential. While you may not need to have the same customer base as a mature company, you will need to show evidence of a sufficient number of retained users, whom you have also succeeded in Upselling or cross-selling to.

- **You've Done your Homework:** Investors will want to know that you have done the required research on them prior to approaching them. You will need to know what companies similar to yours the investor has invested in and that those companies are not direct competitors. Investors need to know why, apart from financial reasons, an entrepreneur has approached them specifically. This will show that you know them well and are aware of the value they can bring to you and you can bring to them.

Once you are confident you can address the above, you can approach investors and pitch. During pitching, you should take note of the following:

- **Tell Your Story:** While investors are interested in your idea and its potential, they want to make sure you have the passion and are aligned with your product or service. Investors can figure out the current or potential profitability of a startup from spreadsheets and business plans, but they cannot gauge an entrepreneur's dedication, work ethic, and capability to ensure a startup's success, unless they see those traits first-hand. Entrepreneurs that tell their stories can make themselves and their startups stand out and convince potential investors that they have what it takes to succeed. If you do not show that you have the passion for your product or service, it is an alarm bell that something is not quite right, and one that investors will pay attention to.

- **Less Is More:** While pitching times differ according to the setting, the stage a startup is at, and investors requirements or preferences, your pitch time should not exceed 10 minutes. On demo days when incubators and accelerators have anywhere from 10 to 30 companies pitching, presentations typically do not exceed three minutes. The typical seasoned investor has seen hundreds to thousands of pitches. Do not spend too much time on trivial issues, drowning out the most important parts of your pitch with unnecessary information. Instead focus only on the most critical aspects of your startup, including the problem it is trying to solve, its potential, traction achieved, and the value your team brings.

> **Expert Insight**
>
> *What we find useful for validation at the idea phase is having an experienced team that understands the problem that their company is dedicated to addressing. For example, when it comes to a digital health startup, the business would benefit from senior team members who have experience in the space as healthcare practitioners (doctors, nurses, pharmacists, etc.), pharmaceutical company executives or scientific researchers, among others. Founders with backgrounds and experience in these fields are already at an advantage, and they will seek to supplement their experience with additional market research.*
>
> ***- Lana Ghanem, Managing Director, Hikma Ventures***

- **Be Clear and Precise:** Investors value their time and want to see that you also value your time and theirs—if you respect your and their time, it is further assurance that you will also respect their money and know what to focus on in your journey. Be very clear and straightforward about what your product or service does, what its potential is, and what you are asking for. Do not assume that investors will understand what you perceive to be the simple aspects of your business. Do not try to impress them with acronyms and advanced technical terms. Investors may see this as an attempt to cover up inadequacies in your product or service.

- **Impress:** First impressions count and your pitch is often really the only chance you will have with an investor—impress them! Make sure you highlight your strengths as an entrepreneur and as a startup. At this stage it is really important that your product or prototype is functional, presentable, and generating traction in the market. Investors will need to see numbers to evaluate whether or not to invest. It is therefore crucial that you begin collecting such information as soon as your product begins testing or hits the market. It is critical that your numbers illustrate the potential for your startup to generate massive returns on investment, otherwise average returns are simply an opportunity cost for investors. Your pitch should, aside from showcasing your MVP, or prototype product or service, also detail its advantage over other competitors, your strategy to take your product to market, your revenue model, timelines and projections, and your 'exit' strategy (when you want to sell your share of the company and forego ownership). Investors focused on financial rather than on strategic or impact returns want to make as much money as they can as fast as possible—your pitch should show them how much money you can make them, the process you will follow, and the time period it will take. You should have done enough research on your audience to know what they like and dislike, the companies they have invested in, how much you can ask for, and what their personality is like, in order to know how to prepare your pitch. They will ask you tough questions that can rattle the most experienced serial entrepreneur. It is important to anticipate as many questions as possible and prepare for them before your pitch. And remember, a visually appealing slide deck and an entrepreneur that is dressed to impress could make all the difference.

> **Expert Insight**
>
> *Ultimately, VCs back companies that they think will succeed. No matter how well-presented the pitch deck is, in the end, VCs will look to invest in passionate, knowledgeable and dedicated teams that are geared for growth. That is what must come across in the investment pitch. At the end of the day the most important aspects are that the company is solving a real problem and that the team is a strong one that can handle pressure and has the flexibility to navigate through the uncertainties ahead.*
>
> ***- Lana Ghanem, Managing Director, Hikma Ventures***

- **Be Transparent:** Being honest in financial dealings is paramount, and investors have seen enough pitches to suspect when an entrepreneur is hiding something or not telling the truth. There is no need to make past failings the highlight of your pitch, but likewise, you should not lie about them. If you feel your startup is not yet at the stage where you can convincingly ask for funding, then you should not pitch in the first place, and instead go back to the drawing board. Reputation is your currency as an entrepreneur and startup. If you destroy it with one investor, word can spread and destroy your chances everywhere. You will be working closely with many investors—if they feel that they cannot trust you, they will not give you their money.

- **Slide Deck:** Every pitch needs to have a slide deck. This is a presentation that showcases an entrepreneur's product, her or his business, and their promise. While slide decks will differ from investor to investor and entrepreneur to entrepreneur, there are sections most investors require when startups are pitching to them. As a general rule, your slide deck should be between 10 to 15 slides and should not exceed 20 slides.

- **Practice Makes Perfect:** Remember to rehearse your pitch dozens of times! As already mentioned, your pitch is often the only chance you will get with an investor. Make sure you rehearse until you cannot get it wrong! Practice pitching to friends, family, and your own team. Practice in front of the mirror and even record yourself on video. You will be surprised to find out how different your body language, vocabulary, and presentation skills may seem once you review the video.

> “
> **Expert Insight**
>
> *Ultimately, VCs back companies that they think will succeed. No matter how well-presented the pitch deck is, in the end, VCs will look to invest in passionate, knowledgeable and dedicated teams that are geared for growth. That is what must come across in the investment pitch. At the end of the day the most important aspects are that the company is solving a real problem and that the team is a strong one that can handle pressure and has the flexibility to navigate through the uncertainties ahead.*
>
> ***- Lana Ghanem, Managing Director, Hikma Ventures***

> “
> **Expert Insight**
>
> *A pitch should be clear, transparent and to the point, and demonstrate what the founders are trying to do while also reflecting the strength of the startup's team. It is only an entry point so should only be a maximum of 10-15 slides. Generally, a pitch should include: the startup's business model, revenue streams, general financial information, team roles and qualifications, Value Proposition, marketing and growth strategy, and the financial ask from Oasis500.*
>
> ***- Luma Fawaz, CEO, Oasis500***

Pitch Types

Startup pitches can vary significantly in length and detail, depending on the context and audience. Below is a breakdown of different types of pitches based on usage, along with suggestions for content and slides:

Pitch Type	Elevator Pitch (1-2 minutes)	Short Pitch (3-5 minutes)	Standard Pitch (10 minutes)	Detailed Pitch (20-30 minutes)
Usage	Networking events, quick introductions, or any scenario where you have a very brief window to generate interest. You could be waiting for a meeting, and then you see a potential investor who could be interested to know about your startup and. If you cannot explain your startup in 1-2 minutes, you may lose an investor right then and there. If you are prepared, your clear and brief pitch may get you the funding you are looking for.	Pitch competitions, brief presentations at events, or initial interest meetings.	Usage: Initial meetings with VCs, angel investors, or detailed presentations to interested parties	Deep-dive meetings with investors who have shown interest, possibly a second or third meeting.
Content/ Slides		Slide 1: Introduction Slide 2: Problem Slide 3: Solution Slide 4: Market Opportunity Slide 5: Business Model (How you make money) Slide 6: Traction (Any users, revenue, growth metrics) Slide 7: Team (Key team members and their expertise) Slide 8: Ask (What you are looking for: investment, partners, etc).	Slide 1: Introduction Slide 2: Problem Slide 3: Solution Slide 4: Market Opportunity Slide 5: Business Model Slide 6: Traction Slide 7: Team Slide 8: Competitive Analysis (Your advantage over competitors) Slide 9: Financials (Summary of financial projections) Slide 10: Ask (Including use of funds)	Slide 1: Introduction Slide 2: Problem Slide 3: Solution Slide 4: Market Opportunity Slide 5: Business Model Slide 6: Traction Slide 7: Team Slide 8: Competitive Analysis Slide 9: Product/Service Demo (Screenshots, video, or live demo) Slide 10-15: Financials (Detailed financial projections, current financial status) Slide 16: Marketing and Sales Strategy Slide 17: Roadmap (Product development and business milestones) Slide 18: Ask (Detailed investment proposal, valuation, and terms) Slide 19: Testimonials/Case Studies Slide 20: Closing (Summary and Call to Action)

Related Online Resources:

- Guy Kawasaki rules & templates for pitching: https://guykawasaki.com/the-only-10-slides-you-need-in-your-pitch/; for putting together an effective teaser
- A world's leading VC's template for a pitch deck: https://www.slideshare.net/PitchDeckCoach/sequoia-capital-pitchdecktemplate; for an insight how Sequoai likes it
- A selection of sample pitch decks: https://business.tutsplus.com/articles/startup-pitch-deck-examples--cms-33037 ; for an insight in real successful fund raising presentations
- And mores selections of successful pitch decks: https://www.docsend.com/blog/pitch-deck-examples/ or https://www.cbinsights.com/research/billion-dollar-startup-pitch-decks/

CONDUCT HIGH-LEVEL NEGOTIATIONS WITH POTENTIAL FUNDING SOURCES

- **Negotiation:** While some investors may begin negotiations with you right after your pitch and in parallel with the due diligence phase, many will opt to proceed with negotiations following the completion of due diligence. Obtaining legal advice at this stage is preferable, especially if you are going through this process for the first time. During the negotiation phase investors will want to know exactly how much you as an entrepreneur want, how you want it, and what they receive in return. Are you looking for equity or a convertible note? What is the portion of equity you will give up? Will they get board representation in exchange? All of this forms part of the 'term sheet', an initially non-binding summary sheet that sets out the key points of the financial agreement between the investor and investee. You will need to understand the potential implications of any of the above and anticipate any scenarios to obtain funding that did not align with your initial request. Perhaps you requested equity and an investor wants to opt for a convertible note with periodic interest payments. You should also be aware of how much equity you are giving up and how this affects your management of the company. Hostile takeover bids are not uncommon and could boot out an entrepreneur from a startup they have worked so hard to build.
- **Expression of Interest:** If investors are still interested, or want to hear more, they will reach out to you. They could either request further clarification (this may happen at the conclusion of, or right after, your pitch) or express their interest to proceed with negotiations for funding. If investors are interested in funding, they will proceed with their due diligence. If, following the pitch, you still have not heard from an investor, follow up. However, If an investor takes too long to respond or does not respond in a set time-period, this may serve as an indication that the investor is not serious.

REVIEW TERMS AND AGREEMENTS WITH SPECIALIZED LEGAL COUNSEL

It is strongly recommended that you work with a legal representative during this phase, as the finer details may become very complicated with long-term implications. Term sheets and funding agreements are critical documents in the financing process of startups, laying the groundwork for detailed legal agreements to follow. They outline the terms and conditions under which an investment will be made.

TERM SHEETS AND LEGAL CONSIDERATIONS IN FUNDING AGREEMENTS

While term sheets are often non-binding (except for certain provisions like confidentiality and no-shop clauses), they serve as the foundation for the binding funding agreements. Here are some of the most important considerations in these documents:

- **Valuation and Investment Amount:**
  - » **Valuation:** Determines the worth of the company and, consequently, the percentage of ownership the investor will receive for their investment.
  - » **Investment Amount:** The total amount of capital the investor will provide, which impacts the company's equity distribution.
- **Type of Security Offered:** Details whether the investment will be in the form of equity, convertible notes, SAFE (Simple Agreement for Future Equity), or another type of financial instrument.
- **Liquidation Preference:** Specifies the payout order in the event of a liquidation, sale, or merger, ensuring investors get their investment back before other shareholders.
- **Voting Rights and Board Composition:** Outlines the investors' voting rights and any changes to the board's composition post-investment, which can significantly affect decision-making processes within the company.
- **Dividends:** Conditions under which dividends will be paid to investors and founders, including rates and preferences.
- **Anti-Dilution Provisions:** Protects investors from dilution in future financing rounds by adjusting their equity stake under certain conditions.
- **Drag-Along and Tag-Along Rights:**
  - » **Drag-Along Rights:** Allow majority shareholders to force minority shareholders to join in the sale of a company.
  - » **Tag-Along Rights:** Allow minority shareholders to join a sale initiated by majority shareholders, protecting their interests.
- **Right of First Refusal (ROFR) Rights:** Gives existing investors the right to purchase shares before the company offers them to external parties.

- **Vesting Schedules for Founders:** Determines how and when founders' equity will vest, often used to ensure founders remain committed to the company for a certain period.
- **Conditions Precedent to Financing:** Lists conditions that must be met before the funding is provided, such as satisfactory completion of due diligence, approval from regulatory bodies, or other milestones.
- **Confidentiality and Exclusivity:**
  - **Confidentiality:** Obligates the parties to keep the negotiations and terms confidential.
  - **Exclusivity (No-Shop Clause):** Prevents the company from seeking other investors or offers for a specified period.
- **Representations and Warranties:** Statements by both parties about the company's status, financials, legal matters, and other critical aspects, providing assurances about what they're representing as true.
- **Legal Fees and Expenses:** Specifies who will bear the legal costs and other expenses related to the transaction.

Example

Example on Short version Venture Capital Term Sheet

Date: [Date]

Parties Involved: Investor: [Investor's Name] Company: [Company's Name]

- Investment Details:
  - Total Investment Amount: $[Total Amount]
  - Investment Type: Preferred Shares
  - Valuation: Pre-money valuation of $[Pre-money Valuation]
  - Investment Tranches: Initial investment with an option for subsequent rounds subject to mutual agreement.
- Investment Terms:
  - Security: Series A Preferred Shares
  - Voting Rights: To be discussed.
  - Liquidation Preference: Non-participating 1x liquidation preference in a liquidation event.
- Board Representation:
  - Investor to have [Number] board seat(s) on the company's board of directors.
- Dividends:
  - Non-cumulative dividends to be discussed.
- Vesting Schedules:
  - Founders' shares to vest over a [Time Period] period.
- Confidentiality and Exclusivity:
  - Mutual confidentiality and exclusivity agreement for [Number] days for negotiation purposes.
- Governing Law and Dispute Resolution:
  - Jurisdiction: [Jurisdiction]
  - Dispute Resolution: Arbitration.

[Signatures]

This simplified term sheet example covers the essential elements of a venture capital investment agreement while maintaining shortness and clarity. Please note that details can vary significantly based on the specific terms negotiated between the investor and the company and should be reviewed by legal professionals before finalizing any investment agreement.

Example

Example on Dilution for Startups:

Before getting into the example, it is important to define Pre-money and Post-money:

- Pre-money Valuation: Refers to the value of a company before it receives the latest round of financing. This valuation is used to determine the equity stake a new investor will receive for their investment.
- Post-Money Valuation: Calculated by adding the amount of new funding to the pre-money valuation. It reflects the company's value immediately after receiving the investment, indicating the total value of the company including the newly injected capital.

Background: Jordan XYZ Tech LLC, a Jordanian startup, initially owned 100% by founders Samer and Hanan.

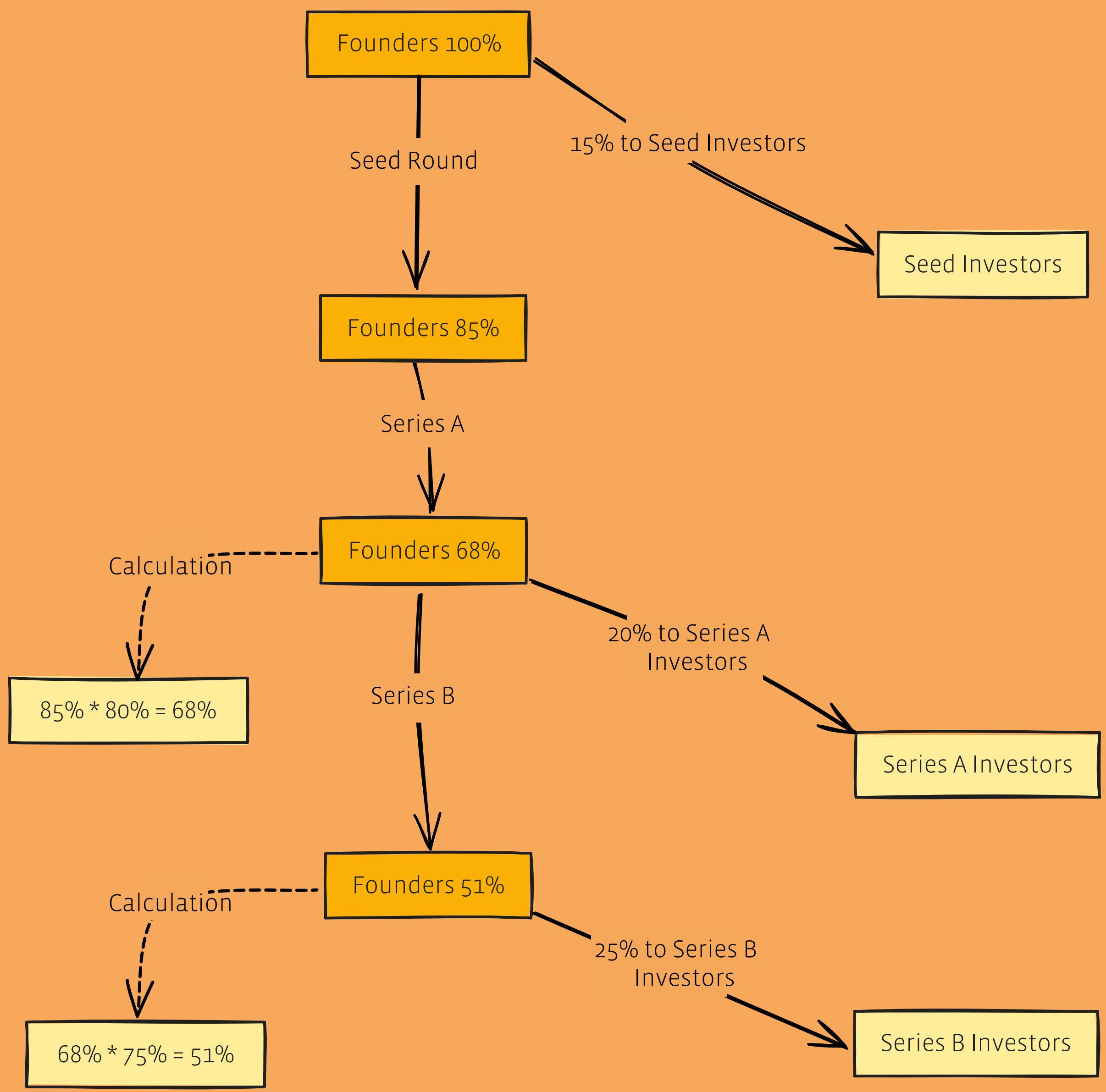
Funding Rounds:

- Seed Round:
  - » Objective: Kickstart product development and market research.
  - » Raise: JOD 50,000 for 15% of the company, valuing Jordan XYZ Tech at JOD 0.33 million post-money.
  - » Post-Round Ownership: Founders' combined stake decreases to 85%.
- Series A:
  - » Objective: Scale operations and expand the team.
  - » Raise: JOD 400,000 for 20% of the company, valuing Jordan XYZ Tech at JOD 2 million post-money.
  - » Post-Round Ownership: Founders' ownership is now 68% (85% from the previous round minus the 20% sold in this round, adjusted for the dilution effect. Since 20% new ownership implies the existing ownership is now 80% of the total company. Adjusted Ownership: 85% * 80% = 68%).
- Series B:
  - » Objective: Accelerate growth, expand market presence, and enhance product offerings.
  - » Raise: JOD 1.5 million for 25% of the company, valuing Jordan XYZ Tech at JOD 6 million post-money.
  - » Post-Round Ownership: Founders' stake is diluted to 51% (68% from after Series A, minus 25% sold in this round, adjusted for the dilution effect. since 25% new ownership implies the existing ownership is now 75% of the total company. Adjusted Ownership: 68% * 75% = 51%.).
  - » Outcome: After three rounds of funding, Samer and Hanan retain a majority ownership of 51%, having raised a total of JOD 1.95 million to fuel Jordan XYZ Tech growth. This scenario illustrates a strategic approach to fundraising, where each round is aimed at specific growth milestones, balancing the need for capital against maintaining control over the company.
  - » The dilution effect occurs because each round of funding introduces new shares to the investors, which are carved out of the company's total equity, reducing the percentage owned by the existing shareholders, including the founders. The calculation for each round considers the new ownership percentage introduced and adjusts the founders' existing ownership proportionally. This method ensures that the dilution effect is accurately reflected, showing how the founders' percentage of ownership decreases with each investment round while still maintaining control over the majority of the company after Series B.

Example

Example on Dilution for Startups continue

Jordan XYZ Tech LLC



By carefully planning each funding round to minimize dilution while achieving necessary capital for growth, Jordan XYZ Tech Inc. successfully navigates the challenging landscape of startup financing. This approach allows the founders to retain significant control over their company's direction while securing the funds needed for expansion.

Related Online Resources:

- YC SAFE standard: https://www.ycombinator.com/documents/; for explanations & documents on one of the most widely used startup financing instrument
- US VC model legal documentation: https://nvca.org/model-legal-documents/; for download

TRANSACTION EXECUTION & POST-FINANCING STAGE

Legal advisors play an important role in financing deals, ensuring that all transactions comply with relevant laws and regulations while protecting the interests of the parties involved. They help in drafting, reviewing, and negotiating the terms of financing agreements, including equity investments, loans, and other financial instruments. Their expertise is invaluable in structuring deals to optimize tax implications, intellectual property rights, and corporate governance.

Transaction Execution

The Transaction Execution and Post-Financing stages are critical in the lifecycle of startup funding. These stages involve due diligence, legal and compliance checks, finalizing terms and agreements, closing the deal, and transferring funds. Each step requires full attention to detail to ensure the success and legality of the transaction.

DUE DILIGENCE, LEGAL AND COMPLIANCE CHECKS

Due Diligence: This is a comprehensive appraisal of a business undertaken by a prospective funder, especially to verify its assets and liabilities and evaluate its commercial impact. For startups, this means investors will scrutinize every aspect of the business. This includes financial performance, customer contracts, intellectual property, employee agreements, and compliance with relevant laws.

Investors at this stage will look at your startup's audited financial statements, your registration status, and debts, amongst other metrics, in order to assess the potential return on investment. They will also conduct background checks on your startup and team, including through client feedback, in some cases requesting references.

Expert Insight

In general, as part of HV's diligence process, we will seek to gain an in-depth understanding of the company's product(s), technology, pricing, market size, competition, customer profile, team, board/advisors, existing and incoming investors, financials, business plan and milestones, as well as its legal/regulatory status. We try to engage as many stakeholders as possible to understand each of their experiences with the company – whether as customers, investors or advisors. We put a lot of emphasis on the team's track record, background and potential.

- Lana Ghanem, Managing Director, Hikma Ventures

Investors want to assure themselves that your startup has a sound, financially viable, model that is being properly executed, and that the team behind the startup is honest. It is important that you are transparent with investors from the beginning. An investigation that reveals dishonesty or the omission of a highly relevant piece of information is sure to kill your startup's chances to obtain funding. Besides, the due diligence phase is a good opportunity for you to improve aspects and processes of your company critical for its long-term growth.

Technical due diligence and compliance, particularly in the context of data privacy laws, are critical components of the evaluation process for investments, mergers, acquisitions, or any form of business partnership. This process involves a thorough examination of the technology stack, software architecture, data management practices, and compliance frameworks of a company to identify potential risks, liabilities, and the overall health of the technology infrastructure.

Technical due diligence assesses the scalability, security, and robustness of the technology that underpins a company's products or services. It involves reviewing the codebase for quality and maintainability, evaluating the architecture for scalability, and assessing the technology stack for longevity and compliance with best practices. This phase also includes examining the development processes, disaster recovery plans, and intellectual property rights to ensure that the technology can support the company's growth and is protected against potential threats.

Compliance with data privacy laws is a significant aspect of technical due diligence, especially for companies operating in sectors where customer data is a critical asset. This involves evaluating the company's adherence to relevant data protection regulations, such as the General Data Protection Regulation (GDPR) in Europe and other global or local data protection laws. The review focuses on the company's data collection, processing, storage, and sharing practices to ensure they meet legal standards and protect customer privacy.

Companies must demonstrate that they have:

- **Data Protection Policies:** Clear policies outlining data handling, user consent, data subject rights, and data breach response.
- **Data Security Measures:** Robust security measures to protect data against unauthorized access, breaches, and leaks.
- **Compliance Documentation:** Documentation proving compliance with relevant laws, including data protection impact assessments, processing records, and third-party contracts.

Legal and Compliance Checks: Ensuring that the startup adheres to all legal and regulatory requirements is vital. This includes compliance with tax laws, employment laws, and industry-specific regulations.

- **Regulatory Compliance:** Startups must demonstrate compliance with relevant local, national, and international regulations. Non-compliance can be a deal-breaker.
- **Corporate Governance:** Proper corporate governance structures must be in place, including board composition, shareholder agreements, and management rights.

The restructuring of a company's legal setup is sometimes a prerequisite for securing investment, especially when dealing with sophisticated investors such as venture capital firms. This restructuring can involve changes to the company's legal entity type, ownership structure, intellectual property (IP) rights, and compliance frameworks. The goal is to make the company more attractive and secure for investors by aligning its structure with best practices and legal requirements. The process can have significant implications for the company's future operations, tax obligations, and ownership rights, underscoring the need for expert legal advice.

Reasons for Legal Restructuring:

- **Investor Requirements:** Investors may require a specific legal structure to minimize their risks and ensure that the company's governance aligns with their investment strategy. For example, converting from a sole proprietorship to a corporation can offer liability protection and a clearer ownership structure.
- **IP Protection:** Proper legal structuring ensures that IP rights are correctly assigned to the company and protected, which is crucial for technology-driven startups.
- **Regulatory Compliance:** Compliance with local and international regulations can necessitate changes in legal structure, especially for companies in highly regulated industries or those looking to expand internationally.
- **Tax Efficiency:** The legal structure of a company significantly impacts its tax obligations. Restructuring can optimize tax liabilities, making the company more financially viable in the long term.

The process of restructuring can be complex, with far-reaching implications for the company's future:

- **Ownership and Control:** Changes in legal structure can affect ownership rights, potentially diluting the founders' control. Legal advice is crucial to navigate these changes without compromising the founders' interests.
- **Tax Implications:** Expert legal advice can help understand the tax implications of restructuring, ensuring that the company remains compliant while optimizing its tax position.
- **Compliance and Liability:** A legal expert can guide the company through the regulatory landscape, ensuring compliance and minimizing liability risks.
- **Negotiations:** Legal advisors play a critical role in negotiations with investors, ensuring that the terms of investment are favorable and protect the company's interests.

Expert legal advice is indispensable throughout this process, ensuring that the restructuring aligns with the company's growth objectives, protects its assets, and complies with legal and regulatory standards. This expertise not only facilitates a smoother investment process but also positions the company for sustainable growth and success.

FINALIZING TERMS AND AGREEMENTS

After due diligence, the next step is finalizing the terms of the investment.

- **Legal Documentation:** Once the term sheet is agreed upon, legal documents are drafted. These include the Share Purchase Agreement (SPA), Shareholders' Agreement, and other relevant contracts. These documents legally formalize the terms agreed upon in the term sheet.
  - **Share Purchase Agreement (or Subscription, Grant or Loan Agreement for other funding options):** This document details the sale and purchase of shares, including representations and warranties.in case of investment.
  - **Shareholders' Agreement:** It outlines the rights and obligations of the shareholders, the management of the company, and other corporate governance matters.

CLOSING THE DEAL AND FUNDS TRANSFER

Documentation
Once the term sheet has been signed, the agreement between your startup and an investor is formalized. It is strongly recommended that you work with a legal representative during this phase, as the finer details may become very complicated with long-term implications.

Closing the Deal: This is the final step in the investment process where all parties sign the necessary legal documents, and the deal is officially completed.

- **Execution of Documents:** All parties involved must sign the SPA, Shareholders' Agreement, and any other necessary documents. This often occurs in a formal closing meeting.
- **Conditions Precedent:** Certain conditions might need to be met before the deal can close, such as obtaining regulatory approvals or fulfilling other obligations outlined in the agreements.

Funds Transfer: Once the deal is closed, the funds are transferred from the investor to the startup.

- **Escrow Arrangements**: In some cases, funds are initially placed in escrow, to be released upon the fulfillment of specific conditions.
- **Capital Injection:** The investment capital is typically transferred to the startup's bank account. This marks the completion of the fundraising process.

Post-Financing: Navigating the Next Steps for Startup Growth

After successfully securing funding, startups enter a critical phase where effective management of the new capital and adherence to governance and compliance standards are paramount. This stage sets the foundation for sustainable growth and prepares the startup for future funding rounds.

CAPITAL ALLOCATION & IMPLEMENTATION

Strategic Allocation of Funds: The first step post-financing is the strategic allocation of the newly acquired capital. Startups need to ensure that the funds are used effectively to achieve the goals outlined in their business plan. This involves:

- **Budgeting and Financial Planning:** Creating detailed budgets for different areas of the business, such as product development, marketing, sales, and operations. It is important to prioritize spending based on the startup's immediate needs and long-term strategy.
- **Resource Allocation:** Allocating resources to areas that will drive growth and generate revenue. This might include hiring key personnel, investing in marketing campaigns, or scaling up production.
- **Monitoring Expenditure:** Regularly monitoring expenditure against the budget to ensure that the startup is on track and making adjustments as necessary.
- **Measuring Impact:** It is important to measure the impact of the capital allocation on the business. This includes tracking key performance indicators (KPIs) and metrics that were outlined in the fundraising pitch. These metrics could include revenue growth, customer acquisition rates, market penetration, and product development milestones.

REPORTING AND COMMUNICATION

Regular Investor Updates: Maintaining open lines of communication with investors is important. Regular reporting keeps investors informed about the startup's progress and builds trust.

- **Financial Reports:** Provide periodic financial statements, including income statements, balance sheets, and cash flow statements, to give investors a clear picture of the financial health of the startup.
- **Operational Updates:** Share updates on business operations, including new product launches, market expansion, key hires, and strategic partnerships.
- **Challenges and Solutions:** Be transparent about any challenges faced and the strategies implemented to address them. This openness can foster investor confidence and support.
- **Feedback and Engagement:** Encourage feedback from investors. Their experience and insights can be invaluable in guiding the startup's strategy and operations.

Dealing with new shareholders effectively is important for maintaining a healthy investor relationship and ensuring the smooth operation of your business. Below are key strategies to manage this relationship:

- **Documentation:** Ensure all agreements with new shareholders are meticulously documented. This includes shareholder agreements, stock purchase agreements, and any other legal documents that outline the rights, obligations, and expectations of both parties. Clear documentation prevents misunderstandings and provides a solid foundation for the relationship.
- **Regular Reports and Updates:** Establish a routine for providing regular financial and operational updates to shareholders. This could be in the form of quarterly reports, annual general meetings, or monthly newsletters. Transparency in successes, challenges, and financial health keeps shareholders informed and engaged.
- **Board:** Consider inviting significant shareholders to join an advisory board or offering them a seat on the board of directors. Their expertise and experience can be invaluable in guiding the company's strategic direction. Moreover, involving them in decision-making processes can foster a sense of ownership and alignment with the company’s goals.

- **Open Communication Channels:** Maintain open lines of communication. Encourage shareholders to share their insights, concerns, and expectations. This can be facilitated through regular meetings, direct calls, or digital communication platforms.
- **Shareholder Agreements:** Review and possibly update shareholder agreements to include provisions for dispute resolution, share transfer restrictions, and dividend policies. This helps in managing expectations and provides a clear path for resolving potential conflicts.

Please read the case study on a medical technology startup below as an example on the delicate balance required between innovation, strategic scaling, and investor alignment.

Case Study **Medical Technology Startup**

The Journey

- **Introduction:** The founding team started their business in the VR industry, focusing on developing cutting-edge technologies and tailored towards the medical industry. Their main customer segment was the medical schools, and in particular the surgery training labs supervisors. The business model started as a B2B business focused on selling license to the universities, where they would provide access to their students, then started working on introducing a new segment, which is the university students who need to access their experiments and tests while at home.

- **The Rise of the Business:** The team started working on their technology with the aim to revolutionize the medical industry education practice, with the hope of growing to start offering augment reality technologies for actual hospitals and real-time surgeries. The startup successfully secured an initial seed funding of €100,000, enabling the development and entry into the testing phase of their VR products, they immediately utilized the money to a hire a team of developers, purchasing the hardware required, and establish the infrastructure required.

  Positive initial feedback from one university, and some additional requirements from a group of medical students, increased the level of excitement for the product, and motivated the team to fundraise a second round of seed-funding to help them achieve the objectives faster, and get faster product-to-market delivery. The team managed with the support of their angel investor to convince a group of angel investors to join for a second seed-funding round, which was conditioned to KPIs and milestones. Accordingly, the team started hiring business development advisors, purchasing more hardware, and hire more developers to achieve the required KPIs.

- **Challenges and Strategic Mistakes:** As the team continued their testing and validation phase with a cohort of medical students, internal conflicts began to occur, particularly regarding market validation and business strategy. The disagreement with the investors intensified when the decision was made to withhold the second instalment of funding pending further validation of market acceptance and business viability.

  Complicating matters, the founding team, in anticipation of rapid growth, had expanded the team significantly and initiated aggressive market testing through hiring freelance salespersons in the Gulf region, beyond their initial focus in Jordan. This strategic move, while ambitious, proved premature given the financial and operational constraints facing the company, which led the investors team to put the funding on hold until further notice.

Case Study **Medical Technology Startup (continued)**

- **The Collapse:** The withhold of funds, the conflict with the investors team, and the challenging industry, led to internal conflicts among the founding team. The company started facing the challenges of not meeting its monthly liabilities and depleting their runway, they had to led go of some of their developers, move part of the team to work remotely, and that finally led to one of the founding team to leave the company.

  These challenges and mismanagement issues caused the investors to withdraw from the deal and terminate their agreement with the founders. This step led to the unfortunate closure of the business, marking the end to what was initially a promising venture in the intersection of VR technology and medical education.

Lessons Learned

- **Premature Expansion:** The premature expansion of the business without solid market validation and the distraction of the business model by the noise of the customers demand, could lead to depletion of the funding without achieving the main objective of product-market fit.

- **Strategic Investments:** The over and premature spending of funds, led for the need of onboarding new investors for the sole purpose of getting some cash flow, and such decision could jeopardize the business strategies and vision.

- **Cashflow:** Startup must be aware of their burn rate, specially at the early stage of development, as the premature growth of expenses, could lead to the depletion of the funds, and force the founding team to take tough decisions to meet their monthly liabilities.

GOVERNANCE AND COMPLIANCE

Adhering to Agreements: Post-financing, startups must adhere to the terms set out in the investment agreements. This includes compliance with shareholder agreements, employment contracts, and other legal commitments.

- **Corporate Governance:** Implement and maintain robust corporate governance practices. This may involve setting up a board of directors, holding regular board meetings, and ensuring that all corporate actions are in the best interest of the shareholders.
- **Regulatory Compliance:** Stay compliant with all relevant laws and regulations. This includes tax laws, employment laws, and industry-specific regulations.
- **Risk Management:** Implement risk management strategies to identify, assess, and mitigate potential risks that could impact the business.

Related Online Resources:

- SME guide on governance: https://www.smefinanceforum.org/sites/default/files/IFC%2BSME%2BFINAL%2BSpt%2B18-2019.pdf
- SME management reports: https://medium.com/@BiglySales/best-practices-for-reporting-a-comprehensive-guide-for-small-businesses-and-marketing-167a5c8200f3
- CFI resources & Excel templates: https://corporatefinanceinstitute.com/resources/
- Standard financial accounting for better decision making: https://open.lib.umn.edu/financialaccounting/ ; for basic accounts literacy
- Stratup guide to ESG: https://www.balderton.com/playbooks/startup-guide-to-esg/introduction/
- IFC's Sustainability Assessment and Improvement Tool for Midsize Growth Companies: https://www.ifc.org/en/insights-reports/2023/sustainability-assessment-and-improvement-tool-for-midsize-growth-companies
- SDG self assessment: https://sdgimpact.undp.org/assets/20222308-SDG-Impact-Standards-for-Enterprises-Self-Assessment-by-12-Enterprise-Actions-UPDATED.xlsx
- OECD self assessment tool: https://betterentrepreneurship.eu/en/content/about-better-entrepreneurship-tool
- EC's SME self-assessment questionnaire: https://ec.europa.eu/growth/tools-databases/SME-Wizard/smeq.do;SME_SESSION_ID=F_67CfCgkp30XiZGHfPD7hX4QBrJ9RgOpCpCqXrDhVnrWUwXlIjo!1985664871?execution=e1s1
- Selling your services / products to EU: https://europa.eu/youreurope/business/index_en.htm; for getting the initial soft-landing info on one of the largest markets in Jordanian proximity
- Cap table template: https://www.capboard.io/en/captable/captable-template-examples

PREPARING FOR THE NEXT FUNDING ROUND

Setting the Stage for Future Funding: Even after a successful funding round, startups should always be preparing for the next phase of growth and potential future funding.

- **Achieving Milestones:** Focus on achieving the milestones that were communicated to investors during the fundraising process. Meeting or exceeding these milestones can position the startup favorably for future funding.
- **Building a Strong Track Record:** Demonstrate a track record of growth, effective capital utilization, and strategic decision-making. This track record will be crucial in attracting future investors.
- **Networking and Relationship Building:** Continuously build and maintain relationships with potential investors, industry experts, and other startups. Networking can provide valuable opportunities and insights for future fundraising efforts.
- **Market Analysis and Forecasting:** Keep a close eye on market trends and forecasts. Understanding the market will help in adjusting the business model to meet future challenges and opportunities.
- **Documenting Successes and Lessons Learned:** Documenting what has worked well and what hasn't is important for internal learning and for showcasing the startup's journey to future investors.

Please read the case study on DIY Electronics below as an example on the importance financial management and strategic planning in the sustainability of a startup and the ability to secure multiple funding rounds.

Case Study **DIY Electronics Startup**

The Journey

- **Introduction:** The initial success of their product convinced the founders of the potential for scaling their operations. They embarked on fundraising efforts, beginning with grants that enabled further product validation and modest marketing ventures. This phase set the stage for their first significant round of investment, which fuelled more aggressive production and marketing strategies.

To maintain competitive pricing and acceptable profit margins, the startup opted to design its products inhouse while outsourcing the manufacturing. This decision was driven by the need to mitigate the higher production costs associated with local manufacturing. Encouraged by the initial round of investment, the company expanded its production and product range, leveraging previous experiences to streamline the design-to-manufacture process for new devices.

- **Challenges and Strategic Mistakes:** As the startup aimed for higher growth objectives, the need for additional investment became apparent. The ambitions to scale up production, enhance marketing efforts, and expand the team were hampered by a critical shortfall: the founding team's lack of financial expertise. Despite their technical prowess, the absence of clear business objectives and financial statements became a significant barrier in attracting further investment. Potential investors were hesitant, questioning the startup's growth potential and financial preparedness. On the other hand, the challenges faced with the product development, which caused financial losses, as the R&D requirements for the new products started depleting the financial resources available from the sales and the initial investment.

- **The Collapse:** The persistent challenges in securing new investments, coupled with a cost structure that outpaced revenue growth, led to financial unsustainability. Despite the promising start and the innovative products, the startup found it increasingly difficult to manage the financial aspects of its operations. This culminated in the difficult decision to liquidate the business in 2022, marking the end of a venture that had shown significant potential in the DIY electronics market.

Lessons Learned

- **Financial Acumen:** The startup's journey underscores the importance of financial knowledge and planning in running a business. Technical expertise, while crucial, must be complemented by financial acumen to ensure sustainable growth and investment readiness.

- **Cost-Revenue Balance:** Maintaining a healthy balance between costs and revenues is fundamental to a startup's survival. Even with a successful product and market traction, a business must carefully manage its finances to avoid liquidity issues.

- **Investor Confidence:** Clear business objectives and transparent financial statements are key to building investor confidence. Startups need to articulate their growth potential and financial health convincingly to secure necessary funding.

GENERAL RESOURCES

Public Online Tools & Templates by Topic

PART 2 - PREPARING STAGE

- **Planning for your Business:**
  - » An extensive selection of business tools and templates by Oasis500: https://oasis500.com/resources; covering all key aspects such as Business Modelling, Customer Development, Validation, Pitching, Financials, Strategies, Valuation & Equity, Fundraising, Terminology and Legal.
  - » Estimating the market size: https://learn.marsdd.com/article/how-to-estimate-market-size-business-and-marketing-planning-for-startups/; for getting your SAM and TAM estimates
  - » Assign the technology readiness level: https://ised-isde.canada.ca/site/clean-growth-hub/en/technology-readiness-level-trl-assessment-tool; for TRL self-assessment
  - » Google's public data depository: https://www.google.com/publicdata/directory ; for building basic country research and/or comparisons
  - » Export / import data collections: https://www.indexmundi.com/facts/topics/private-sector-and-trade ; for reviewing basic local information or export destination business environment
  - » Startup founder's glossary: https://www.eu-startups.com/2023/06/the-metrics-playbook-25-metrics-every-startup-founder-should-know/

- **Selecting Right Funding Sources:**
  - » All business tools to design your business: https://www.designabetterbusiness.tools/
  - » Investment readiness toolkit: https://www.greenfinanceinstitute.com/gfihive/toolkit/
  - » Investment readiness assessment tool: https://www.tedcomd.com/assessment-tool
  - » Impact investment readiness: https://www.socialinvestmentscotland.com/investment/investment-readiness-tool/
  - » Business benchmark tool: https://www.thestartupboard.com/myBizScore
  - » Weighted Average Cost of Capital: https://calculator.academy/wacc-calculator-weighted-average-cost-of-capital/
  - » Accelerators in your region: https://www.galidata.org/accelerators/
  - » Revenue-based financing: https://techcrunch.com/2019/05/18/startups-weekly-theres-an-alternative-to-raising-vc-and-its-called-revenue-based-financing/
  - » VC glossary: https://www.foundersbox.vc/tools/talk-the-talk/

- **Funders Overview:**
  - » An example on how to plan pitching a marketplace angel: https://fabricegrinda.com/fj-labs-investment-strategy/; for an inside view how one of the most active ones recommends it – i.e. do not pitch a wrong funding source
  - » Seed funding & options explained: https://www.ycombinator.com/library/4A-a-guide-to-seed-fundraising; for a full guide on how the world's leading accelerator sees it with all the resources and links it used
  - » Another view at seed funding: https://www.sequoiacap.com/article/sequoia-and-seed-investing/#; as a short guide on how a world's leading VC sees it
  - » Growth & late track best practices: https://a16z.com/category/company-building/; for how to move beyond startup phase as a world's leading VC sees it

- **Prepare for Fund Raising Journey:**
  - » Invest now, value later – SAFEs: Safe: https://www.ycombinator.com/documents/; for valuation caps, discounts, pro rata side letters...
  - » Value like a VC pro: https://www.privateequityvaluation.com/Valuation-Guidelines; for an IPEV valuation guide

» Stock market indicators: https://www.macrotrends.net/stocks/stock-screener; for comparing P/E and other traded indicators in your industry
» Summary: https://www.eu-startups.com/2018/10/the-most-common-ways-on-how-to-valuate-early-stage-companies/
» "Start-up Guide" published by USAID LENS: https://www.startupguidejo.com/ar

PART 3 - FUNDRAISING STAGE

- **Seeking Funding Sources:**

» Tools to Evaluate Your Startup Funding Options: https://fastercapital.com/content/Tools-to-Evaluate-Your-Startup-Funding-Options.html; by FasterCapital, an online incubator
» Founder financing & funding tools: https://www.founderpass.com/ ; https://foundersuite.com/ ;

- **Pitching and Negotiations:**

» Guy Kawasaki rules & templates for pitching: https://guykawasaki.com/the-only-10-slides-you-need-in-your-pitch/; for putting together an effective teaser
» A world's leading VC's template for a pitch deck: https://www.slideshare.net/PitchDeckCoach/sequoia-capital-pitchdecktemplate; for an insight how Sequoai likes it
» A selection of sample pitch decks: https://business.tutsplus.com/articles/startup-pitch-deck-examples--cms-33037 ; for an insight in real successful fund raising presentations
» And mores selections of successful pitch decks: https://www.docsend.com/blog/pitch-deck-examples/ or https://www.cbinsights.com/research/billion-dollar-startup-pitch-decks/
» YC SAFE standard: https://www.ycombinator.com/documents/; for explanations & documents on one of the most widely used startup financing instrument
» US VC model legal documentation: https://nvca.org/model-legal-documents/; for download

PART 4 - TRANSACTION EXECUTION & POST-FINANCING STAGE

- **Transaction Execution/ Post-Financing:**

» SME guide on governance: https://www.smefinanceforum.org/sites/default/files/IFC%2BSME%2BFINAL%2BSpt%2B18-2019.pdf
» SME management reports: https://medium.com/@BiglySales/best-practices-for-reporting-a-comprehensive-guide-for-small-businesses-and-marketing-167a5c8200f3
» CFI resources & Excel templates: https://corporatefinanceinstitute.com/resources/
» Standard financial accounting for better decision making: https://open.lib.umn.edu/financialaccounting/ ; for basic accounts literacy
» Stratup guide to ESG: https://www.balderton.com/playbooks/startup-guide-to-esg/introduction/
» IFC's Sustainability Assessment and Improvement Tool for Midsize Growth Companies: https://www.ifc.org/en/insights-reports/2023/sustainability-assessment-and-improvement-tool-for-midsize-growth-companies
» SDG self assessment: https://sdgimpact.undp.org/assets/20222308-SDG-Impact-Standards-for-Enterprises-Self-Assessment-by-12-Enterprise-Actions-UPDATED.xlsx
» OECD self assessment tool: https://betterentrepreneurship.eu/en/content/about-better-entrepreneurship-tool
» EC's SME self-assessment questionnaire: https://ec.europa.eu/growth/tools-databases/SME-Wizard/smeq.do;SME_SESSION_ID=F_67CfCgkp30XiZGHfPD7hX4QBrJ9RgOpCpCqXrDhVnrWUwXlIj0!1985664871?execution=e1s1
» Selling your services / products to EU: https://europa.eu/youreurope/business/index_en.htm; for getting the initial soft-landing info on one of the largest markets in Jordanian proximity
» Cap table template: https://www.capboard.io/en/captable/captable-template-examples

General Online Tools, Videos/Webinars and Resources

LIST OF RESOURCES

- An extensive selection of business tools and templates by Oasis500: https://oasis500.com/resources; covering all key aspects such as Business Modelling, Customer Development, Validation, Pitching, Financials, Strategies, Valuation & Equity, Fundraising, Terminology and Legal.
- An extensive selection of business templates by the EBRD: https://businessguide.ebrd.com/useful-templates; for best emerging market practices
- An extensive selection of business resources by the EBRD: https://www.ebrdknowhowacademy.com/; for best emerging market practices
- US VC model legal documentation: https://nvca.org/model-legal-documents/; for download
- YC library of best practice videos & podcasts: https://www.ycombinator.com/library; for tips from the world's foremost accelerator's ecosystem
- A large selection of market research tools: https://ibusinessmotivation.com/best-market-research-tools/; for insides to your industry and more
- Seed funding & options explained: https://www.ycombinator.com/library/4A-a-guide-to-seed-fundraising; for a full guide on how the world's leading accelerator sees it with all the resources and links it used
- An extensive selection of VC industry blogs: https://medium.com/lists-of-links/best-venture-capital-firm-blogs-625ca88ba311
- A podcast offering a unique insight into the digital/tech startup ecosystem of Arabia: https://www.youtube.com/@ventureoasispodcast3211
- Forbes MENA lists: https://www.forbesmiddleeast.com/list

Research Reports & Studies

DATA SOURCES:

- MAGNiTT: https://magnitt.com/research/
- WAMDA: https://www.wamda.com/research
- Crunchbase: https://www.crunchbase.com
- TTI: https://erc-jordan.org

IMPORTANT NATIONAL AND REGIONAL REPORTS:

- 2023 Year in Review Investments in MENA: https://www.wamda.com/research/pdf/2023-year-review-investments-mena
- 2018-2022 Jordan Venture Investment Report: https://magnitt.com/research/2018-2022-jordan-venture-investment-report-50899
- FY 2023 MENA Venture Investment Summary: https://magnitt.com/research/2023-mena-venture-investment-summary-50906
- Jordan's Startup Economy: https://orange.jo/sites/default/files/documents/startup_en.pdf

Proprietary Tools & Templates

LIST OF RESOURCES

- Business Plan Template.doc
- A VC perspective to selecting a deal to finance.doc
- A typical VC investment memo guideline.doc
- A sample Integrity Red Flags Checklist.doc
- A sample ESG DDQ checklist.doc
- A simple VC term sheet.doc
- A sample VC convertible agreement.doc
- A sample DFI equity term sheet.doc
- A sample DFI debt term sheet.doc
- A sample preferred investment.doc
- Financial Plan English.xlsx
- Financial Plan Arabic.xlsx
- Startups Tools Arabic.xlsx
- Startups Tools English.xlsx
- Online Startups Tools English.xlsx

Startup Financing Terms and Concepts Glossary

LIST OF TERMS

A	• **Accelerator:** A program that accelerates the growth of startups, while offering them a variety of support services to bring their product or service to market, including dedicated expertise, introductions to investors, office space, and occasionally, funding. A key difference between accelerators and incubators is that accelerators have shorter time frames to graduate startups from their program and having an investment and an educational components. • **Activation Rate:** The percentage of users who perform specific actions and an indicator of their interest in the service or product. • **ACV - Annual Contract Value:** Total value of annual contracts. • **Agile Methodology:** A project management approach that is commonly used in software development and emphasizes progressive delivery, team collaboration, continuous planning and continuous learning. • **Angel Investor:** An individual investing their own capital in early-stage startups in exchange for an ownership interest or convertible debt. Many are successful entrepreneurs themselves and can offer non-financial support to investees. • **ARpA - Average Revenue Per Account:** Year-on-year recurring revenue from customers. • **ARR - Annual Recurring Revenue:** Year-on-year recurring revenue from customers. • **Average Order Value:** Average value per customer order.
B	• **B2B - Business to Business:** Business-to-business transactions, rather than selling products or services to end consumers. • **B2C - Business to Consumer:** Direct transactions between companies and end consumers. • **Billings:** The process of billing for services or products provided. • **Bootstrapping:** Starting and running a business using personal resources or cash flow from sales instead of relying on external funding. • **Brainstorming:** A collective process of generating ideas and creative solutions to a particular problem. • **Brand Equity:** Market and commercial value that a brand gains based on consumer perception and brand loyalty. • **Break-Even Point:** The point at which revenue balances costs, and there is no profit or loss. • **Burn Rate:** The amount of capital consumed by the company during a specified period of time • **Business Model Innovation:** Create or reinvent the business itself, as opposed to products or services created by the company. • **Business plan:** A document that details the business concept, service or product, financials, team, and future outlook
C	• **CAC - Customer Acquisition Cost:** The total cost of acquiring a new customer (usually the cost associated with marketing to acquire new customers). • **Cash Conversion Cycle:** The period of time it takes for a company to convert its investments in inventory and other resources into cash flows. • **Cash Flow:** The company's cash flow, i.e. funds in and out during a specified period. • **CMGR- Compound Monthly Growth Rate:** It is a metric used to measure the month-over-month growth rate of a variable, such as revenue, user base, or any other key performance indicator (KPI), over a specified period, compounding the growth each month. • **Collateral:** An asset such as physical property (land, vehicle) and/or intangible assets, including money owed to a company, that is pledged in exchange for a loan and is forfeited in case of default. • **Common Majority:** The provision of voting rights to common shareholders. • **Common Stock:** Ordinary shares that provide voting rights and irregular, or sometimes no, receipt of dividends.

C	• **Competitive Advantage:** An advantage of a company that makes its products or services more attractive to customers than competitors. • **Concentration Risk:** Risks associated with focusing on a single customer, a specific type of customer, or one type of service or product. • **Convertible Note:** A debt instrument used to finance startups, which can later be converted into an equity stake. • **Corporate Entrepreneurship:** Apply entrepreneurial principles and processes within an existing company to stimulate innovation and growth. • **Cross-selling:** The practice of selling different, usually complementary, products or services to a client or customer. • **Crowdfunding:** Raising money from multiple sources, usually online, to fund a new project or business idea. • **Customer Acquisition:** The process of attracting and acquiring new customers for the company's products or services. • **Customer Lifetime Value:** The total financial value that the Client is expected to contribute during the period of his/her relationship with the Company.
D	• **DAU - Daily Active Users:** Number of unique users using the product or service per day. • **Debt financing:** Funding, usually in the form of a loan, that is provided in exchange for a markup (or interest) split over a Series of repayments over a period of time. • **Deferred Revenue:** Revenues that have been achieved but not recognized during the current period due to the failure to complete the tasks of delivering the product or service. • **Design Thinking:** A nonlinear iterative process used by teams to understand users, challenge assumptions, redefine problems and create innovative solutions for prototyping testing. • **Disruptive Technology:** Technology that changes the traditional way of industry or market, creating new paths. • **Dividends:** A sum of money paid by a company to shareholders at different time intervals, typically from profits or reserves. • **Drag-along:** The right in a deal that allows the majority shareholder to force minority shareholders to join in the sale of a company. • **Due Diligence**: An in-depth examination process conducted before completing legal transactions or investments, to verify all financial and legal aspects.
E	• **Early Adopters:** Early customers who adopt the product or service in its early stages. • **Ecosystem:** A set of elements interacting in a given environment, such as a business ecosystem involving various stakeholders. Startup ecosystem is community and interconnected system of stakeholders relevant to entrepreneurship, including the government, financial institutions, support organizations, academia, media, and advisory services. • **Elevator Pitch:** A brief and compelling presentation that can be delivered in as short a time as the elevator ride • **Entrepreneur:** Someone who turns an idea into an established business, taking significant risks along the way, and benefitting from significant rewards accruing from their business' success. • **Entrepreneurial Mindset:** The way entrepreneurs think and act, which is characterized by innovation, initiative and risk taking. • **Entrepreneurship:** The activity of setting up a new business, taking financial risks in the hope of making a profit. • **Equity:** A share of ownership in a company. • **Exit Plan:** A strategy that outlines how investors or business owners exit their current investment, usually through a sale or merger. • **Exit:** The process or stage through which owners and investors sell their ownership stake in a company to a purchaser.

F	• **Feasibility Study:** Comprehensive assessment of the technical, economic, legal and practical feasibility aspects of a proposed project. • **Financial Forecasting:** The process of estimating or predicting the future financial performance of a company or project. • **Franchising:** A way to expand a business where individuals or companies are given the right to run a business using a well-known brand and well-documented processes. • **Funding Round:** A stage of raising money for a company, where investors invest money in exchange for a stake in the company.
G	• **Go-to-Market Strategy:** A plan designed to successfully launch new products or services in the market and determine how to attract and acquire customers. • **Grant:** Funding that is usually provided for a strategic activity that does not require repayment and is not in exchange for a share of ownership. • **Gross Churn Rate:** Percentage of customers who stop using the product or service within a specified period of time • **Gross Margin:** The difference between sales revenue and cost of goods sold, usually expressed as a percentage. • **Gross Profit:** Total income from sales after deducting the costs of products sold. • **Growth Hacking:** Creative marketing strategies used to achieve rapid growth in the number of users.
H	• **Horizontal Integration:** The process of merging or acquiring a company with other companies in the same industry to increase its size or market power. • **HR - Human Resources:** Management related to the recruitment, development and care of workers to increase work effectiveness.
I	• **Incubator:** Similar to an accelerator, an incubator can focus on entrepreneurs with an idea, and support them in turning their ideas into a real product or service, including support through dedicated expertise, introductions to investors, and office space. Incubators typically support entrepreneurs for a longer duration than accelerators, and do not provide funding. • **IPO - Initial Public Offering:** A process provided by the company to sell its shares to the public for the first time on the stock exchange. • **Innovation:** The process of transforming an idea or invention into a product or service that creates value for which customers are willing to pay. • **Intellectual Property:** A class of property that includes the intangible creations such as inventions, designs, and brand names. • **Intrapreneurship:** Encourage employees within companies to develop innovative projects and ideas that contribute to the growth of the company.
K	• **KPI- Key Performance Indicator:** A metric used to evaluate the successful performance of various activities within an organization. • **Knowledge Transfer:** The process of sharing or disseminating knowledge and experiences between individuals or institutions.
L	• **Lead Investor:** The first investor to fund a company as part of a deal, providing incentive to other, smaller investors, to fund the rest of the deal. • **Lean Startup:** A business and product development methodology aimed at shortening product development cycles and quickly discovering the feasibility of a proposed business model.

L	• **LBO - Leveraged Buyout:** Using financial debt (loans) to buy a large or total stake in a company and using the acquired company's assets as collateral. • **Liquidation Preference:** The order in which shareholders are paid out in the event of a liquidation, dissolution, or sale of the company. It is a critical feature of preferred stock, offering investors a degree of protection by ensuring they receive their investment back before holders of common stock or junior equity in case the company is wound up or sold. • **Liquidity:** The ability of an asset to convert to cash quickly without significant impact on its price. • **LTV - Lifetime Value:** Expected revenue from the customer during his/her time as a customer of the Company before he/she stops buying.
M	• **Market Disruption:** The case where a smaller, under-resourced company can challenge large companies that are stable in the market. • **Market Penetration:** A strategy aimed at increasing the company's share in the current market by marketing its products or services more effectively. • **Market Segmentation:** Divide the market into groups of customers with similar needs or behaviors. • **MAU - Monthly Active Users:** Number of unique users using the product or service per month. • **M&A - Merger and Acquisition:** The process of merging one company with another or the acquisition of one company over another. • **Mezzanine:** Type of quasi equity financing frequently used by startups. • **Micro VC:** A smaller version of a traditional VC firm, they generally invest in pre-seed and seed stage startups with ticket sizes that are typically less than that of traditional venture capital. • **Minimum Viable Product (MVP):** A prototype for a product or service that allows an entrepreneur or startup to test and showcase to potential investors and funders. • **MoM Growth Rate - Month over Month Growth Rate:** Percentage growth in a given metric, such as sales or users, month-to-month. • **Monthly Churn Rate:** Percentage of customers who stop using the product or service per month. • **MRR Projection - Monthly Recurring Revenue Projection:** Revenue that the company expects to collect frequently each month.
N	• **Net Churn:** Net percentage of customers who stop using the service after calculating gains from new customers. • **Net Profit Margin:** Profit percentage after deducting all costs and expenses from total revenues. • **Networking:** Create and develop professional or personal relationships to exchange information and opportunities. • **No-shop:** A clause in a term sheet which prohibits entrepreneurs from engaging in discussions or negotiations to sell any part of their company to another investor for a set period of time. • **Non-Disclosure Agreement:** Legal agreement between two parties to maintain the confidentiality of shared information. • **Number of Logins:** The average number of times a customer uses an online product or service in a given period of time.
O	• **Operating expenditure:** Expenditures needed to run a company, including salaries, rent, and other day-to-day expenses (subscriptions, services, etc.). • **Opportunity Cost:** The value sacrificed for making a particular choice. • **Organizational Culture:** The sum of the values, beliefs and habits that shape the behavior of employees and the way the organization works. • **Outsourcing:** Companies contracting with third parties to carry out some works or services.

P	• **Patent:** A monopoly right granted by the government to an inventor to use and sell his/her invention for a specified period. • **Pitch deck:** A presentation that summarizes a business plan and makes clear what is requested from an investor. • **Pitch:** A short and compelling presentation by entrepreneurs to potential investors to explain their business idea and attract investment. • **Pivot:** Strategic change in business or product model to adapt to market or new opportunities. • **Post-Money Valuation:** The value of a company after an investment has been made. • **Preferred majority:** The provision of voting rights to preferred shareholders. • **Preferred Stock:** Shares that entitle the holder to the receipt of regular dividends, but don't guarantee a voting right. • **Product Development:** Create products with new or different characteristics that offer new or additional benefits to the customer. • **Product Lifecycle:** Different stages that the product goes through from development until the end of its existence in the market. • **Profit:** Revenues minus costs. • **Proof of Concept:** A test to prove that an idea or concept is viable and achievable in reality. • **Prototype:** An early version of a product used to test and evaluate the design before full production.
Q	• **QA - Quality Assurance:** Processes and procedures aimed at ensuring the achievement of quality standards in products or services. • **Quantitative Analysis:** Analysis that uses mathematical data and models to understand a phenomena and make decisions. • **Quasi Equity:** A form of capital that has both debt and equity-like features, and includes mezzanine financing, convertible debt, and stock.
R	• **Resource Allocation:** Distribute available resources, such as funds, people, and materials, in an effective manner to achieve objectives. • **Retention:** The company's ability to retain its customers over a certain period of time. • **ROI - Return on Investment:** A measure of profitability that compares the benefits of an investment and its cost. • **Revenue:** Money generated from sales. • **Risk Management:** The process of identifying and assessing financial risks and developing strategies to manage them and reduce their impact.
S	• **SAM - Serviceable Available Market:** The part of the total market available that the company can actually serve. • **Scalability:** The ability of a business to expand and increase production without negatively impacting performance or profitability. • **Scale-up:** The process of increasing the volume or scope of a business to handle a larger volume of production or service. • **Security:** A financial instrument, typically stock, that holds monetary value and can be traded. • **Seed Funding:** Seed capital investment in a startup to support its initial operations. • **Series (A, B, C...) Funding:** Successive rounds of venture capital funding (A to E), which start after seed and/or angel investing. • **Social Entrepreneurship:** Establishing projects or companies to solve social or environmental problems, while achieving financial sustainability. • **SOM - Serviceable Obtainable Market:** The part of the serviceable market that the company can realistically target, access and serve. • **Startup:** A company that is in the initial stages of its operations, is experiencing accelerating growth, and provides a unique solution to an existing problem. • **Strategic Alliance:** Cooperation between two or more companies to achieve common goals, while maintaining their independence.

S	• **Supply Chain Management:** Organize and manage the flow of goods and services from the initial stage of production to the delivery of the product to the final consumer. • **SWOT Analysis:** An analysis that assesses the strengths, weaknesses, opportunities and threats of a project or company.
T	• **TCV - Total Contract Value:** The total financial value of all contracts signed within a certain period of time. • **Term sheet:** A non-binding agreement between investors and startups that sets out the terms of funding. • **Ticket Size:** The size of an investment made by an investor. • **TAM - Total Addressable Market:** Maximum revenue a product or service can generate if 100% of the target market is fully exploited. • **Traction:** An indicator of a company gaining momentum in the market, such as increased sales or the number of users. • **Trademark:** A legally registered symbol or name that represents a company or product and distinguishes it from other products.
U	• **Unique Selling Proposition:** The unique element of a product or service that makes it different and desirable from competitors. • **Upselling:** The practice of persuading a customer to purchase more of the same product or a more expensive service. • **User Experience:** A person's experience with a product, system or service, including their feelings and reactions. • **UI - User Interface:** Designing interfaces that users interact with in software and electronic devices.
V	• **Valuation:** The value of a company, that depends on its assets, revenues, and its potential, which will decide how much equity is given in exchange for an investment. • **Value Chain Analysis:** Study activities within a company or an industry to determine where value can be added to the activity, product or service. • **Value Proposition:** The benefit or value that the company provides to its customers and that distinguishes it from competitors. • **Venture Capital (VC) funds:** Institutional investors that invest in high growth businesses and startups, providing funding in exchange for equity. • **Venture Capital:** Capital provided to early-stage startups with high potential and high risk. • **Venture Philanthropy:** Investing in projects or organizations aimed at achieving positive social impact, as well as achieving financial return. • **Venture:** A new venture or company characterized by a high degree of risk and challenge. • **Viral Marketing:** Marketing techniques aimed at exploiting social networks to increase product awareness.
W	• **Working Capital:** Funds available to the company to finance day-to-day operations and short-term expenses. • **Working Prototype:** An initial version of the product that can be used to prove and test its core function.

Frequently Asked Questions (FAQ)

LIST OF QUESTIONS

1. What is startup financing?
It's obtaining funds to start and grow a new business.

2. What are common sources of startup financing?
Equity, debt, grants, and crowdfunding.

3. How do I choose the right financing option?
Consider your business needs, control preferences, repayment ability, and funding purpose.

4. What is equity financing?
Selling company shares for capital, reducing your ownership percentage.

5. What is debt financing?
Borrowing money to be repaid with interest, without losing ownership.

6. What are startup grants?
Non-repayable funds from governments or organizations for specific projects.

7. What's crowdfunding?
Raising small amounts from many people, typically online.

8. How do I prepare for fundraising?
Have a solid business plan, financial projections, and a compelling pitch.

9. What do investors look for?
A strong team, scalable model, competitive advantage, and realistic valuation.

10. How much should I raise?
Enough to reach the next milestone plus a buffer.

11. What is a SAFE?
A Simple Agreement for Future Equity, converting investment into equity later.

12. Can I use personal loans for startup financing?
Yes, but it's risky due to personal liability.

13. What is venture capital?
Investment in high-growth startups for equity.

14. What is venture debt?
Debt for venture-backed startups, less dilutive than equity.

15. What are angel investors?
Individuals providing capital for startups, often for equity.

16. Does credit score matter?
Yes, for debt financing; less for equity financing.

17. Can I finance without giving up equity?

Yes, through debt, grants, or crowdfunding.

18. What are convertible notes?
Debt that converts into equity at a future financing round.

19. How do I negotiate with investors?
Understand your valuation, know your leverage, and be willing to walk away.

20. What financial documents are needed for fundraising?
Income statements, balance sheets, cash flow statements, and projections.

21. How long does fundraising take?
It varies, from a few months to over a year.

22. What is a term sheet?
A non-binding document outlining investment terms and conditions.

23. Can crowdfunding finance any startup?
Yes, but success varies based on marketing and audience engagement.

24. What is revenue-based financing?
A loan repaid via a percentage of future sales.

25. How can I protect personal assets?
Form an LLC or private shareholding company.

26. What is bootstrapping?
Self-funding your startup through personal finances or business revenue.

27. Can startups get bank loans?
It's challenging without credit history or collateral.

28. What is mezzanine financing?
A hybrid of debt and equity, often with flexible repayment terms.

29. What is a pitch deck?
A presentation outlining your business model, market, and financial needs.

30. How do I value my startup?
Use market comparisons, cash flow analysis, or potential market size.

31. What is dilution?
Reduction in ownership percentage due to issuing new shares.

32. How do investors make money?
Through equity appreciation or dividends.

33. What is an exit strategy?
A plan for investors to cash out their investment.

34. What is a cap table?
A document outlining company ownership, including shares and options.

35. How do I find investors?
Networking, investor databases, and startup events.

36. What is a business model?
Your plan for making money.

37. How important is a business plan?
Critical for outlining your strategy and securing financing.

38. Can I change my financing strategy?
Yes, as your business needs and market conditions change.

39. What is a financial projection?
An estimate of future revenue, expenses, and profitability.

40. What is market analysis?
Research on your industry, competitors, and target customers.

41. How do I manage startup finances?
Keep detailed records, monitor cash flow, and plan for future needs.

42. What is working capital?
Funds available for day-to-day operations.

43. What are financial ratios?
Metrics for evaluating financial health and performance.

44. How do I improve my credit score?
Pay bills on time, reduce debt, and monitor your credit report.

45. What is an investor pitch?
A presentation to convince investors to fund your startup.

46. What is due diligence?
An investor's review of your business before investing.

47. Can family and friends invest?
Yes, but ensure clear agreements to avoid future conflicts.

48. What is an IPO?
An Initial Public Offering, taking your company public.

49. How do I scale my business?
Invest in growth, expand your market, and optimize operations.

50. What is a financial model?
A tool for forecasting a startup's financial performance

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